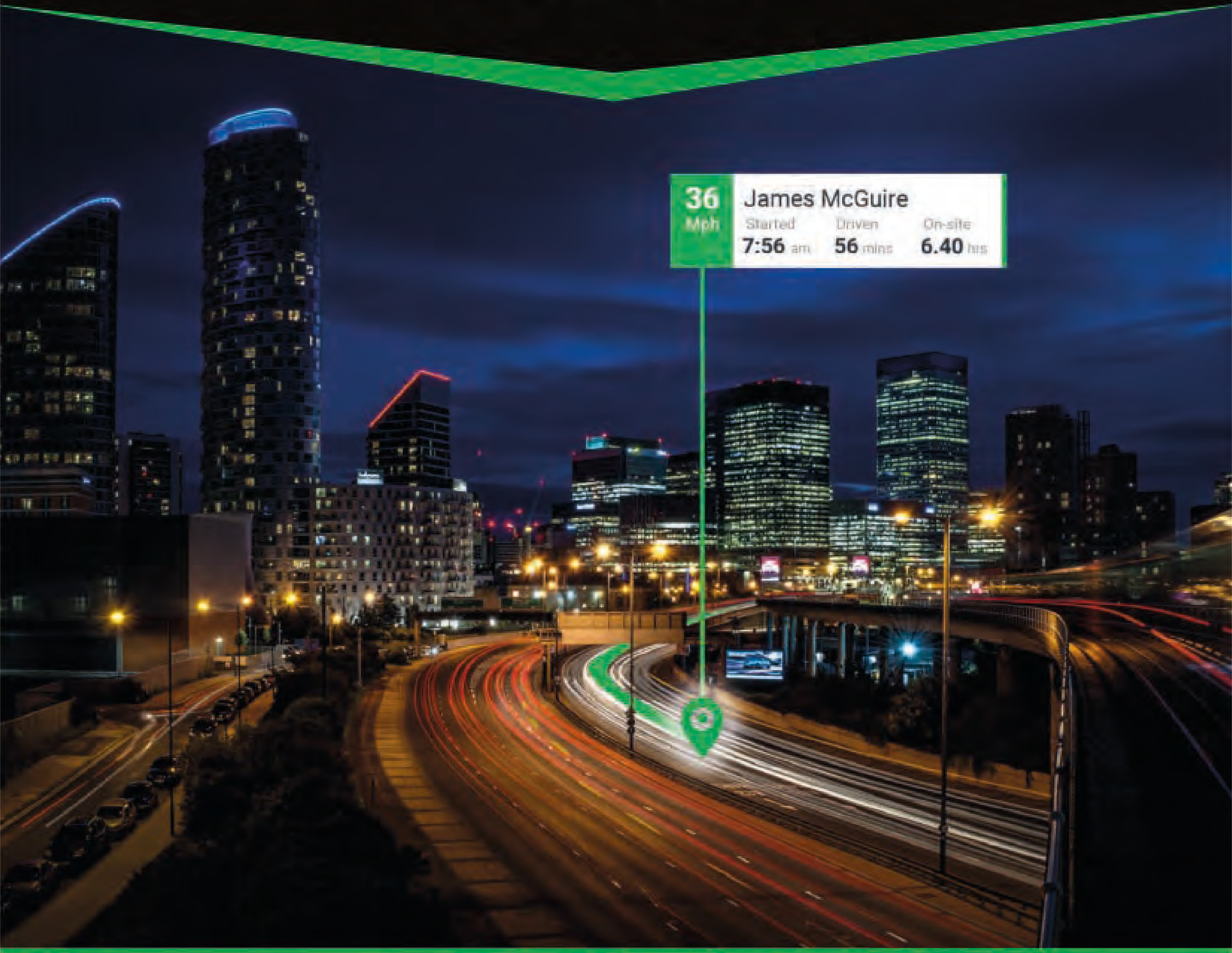
Quartix

Real-Time Vehicle Tracking



Quartix Holdings plc
Annual Report 2018

Contents

Company Information

Company registration number:	06395159
Registered office:	9 Dukes Court, 44~62 Newmarket Rd, Cambridge CB5 8DZ
Directors:	Paul Boughton Andrew Walters Daniel Mendis Jim Warwick
Company secretary:	Daniel Mendis
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Highlights

Restatement of comparatives

All comparative monetary amounts for 2017 have been restated in line with the Group's adoption of IFRS 15: 'Revenue from Contracts with Customers' and the related 'Clarifications to IFRS 15 Revenue from Contracts with Customers' (See note 1).

Financial highlights

- Group revenue increased by 5% to £25.7m (2017: £24.5m)
    - Fleet revenue grew by 10% to £18.8m (2017: £17.1m)
    - Insurance revenue declined by 7% to £7.0m (2017: £7.4m)
- Operating profit increased by 21% to £8.0m (2017: £6.6m)
- Adjusted EBITDA[1] increased by 15% to £8.3m (2017: £7.2m)
- Profit before tax increased by 22% to £8.1m (2017: £6.6m)
- Diluted earnings per share increased by 16% to 14.19p (2017: 12.26p)
- Free cash flow[2] reduced by 11% to £5.6m (2017: £6.3m)
- Cash generated from operations[3] fell by 3% at £6.8m (2017: £7.0m)
- Net cash reduced to £6.8m (2017 net cash: £7.3m)
- Final dividend payment of 10.0p per share proposed (2017: 11.1p) including 6.2p for supplementary dividend (2017: 6.8p) giving a total dividend for the year of 12.4p per share

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[1] Earnings before interest, tax, depreciation, amortisation and share based payment expense
[2] Cash flow from operations after tax and investing activities
[3] Cash inflow before tax

Operational highlights

- Strong progress in the main fleet business:
    - 17% increase in subscription base to 123,157 units (2017: 105,314)
    - 20% increase in customer base to 13,176 (2017: 10,961)
    - Unit attrition increased to 11.9% (2017: 10.1%), due to higher attrition in the US, but compares favourably with our estimate of the industry average of around 14-15 per cent
    - 16% growth in new fleet installations
    - Strong growth in France, ending the year with 2,474 customers (2017: 1,776) and 18,803 vehicles under subscription (2017: 13,131), an increase of 39% and 43% respectively.
    - During its fourth full year of trading the USA grew its customer base to 2,007 (2017: 1,460), with 13,133 vehicles under subscription (2017: 8,973) an increase of 38% and 46% respectively.
- As anticipated further decline in the lower margin insurance telematics business:
    - 29% decline in insurance installations to 41,255 (2017: 57,826)

Chairman's Statement

Introduction

The past year has shown encouraging demand for the Group's vehicle fleet telematics services in the UK, USA and France.

Sales in the Company's core fleet operations in the UK and Ireland grew by 5%, reaching £14.8m (2017: £14.0m). This growth partially compensated for the planned decline in UK insurance revenues, which decreased by £0.4m to £7.0m (2017: £7.4m).

The Group made good progress in France, where revenue increased by 27% to €2.8m (2017: €2.2m).

2018 was the Group's fourth full year of operations in the USA, having launched its service and opened an office there during 2014. We are pleased with progress and completed the year with 13,133 vehicles under subscription (2017: 8,973) across 2,007 fleet customers (2017: 1,460). Revenue increased by 34% to $2.0m in 2018 (2017: $1.5m) and the prospects for future business development remain encouraging.

Results

Group revenue for the year increased by 5% to £25.7m (2017: £24.5m).

Operating profit for the year increased by 21% to £8.0m (2017: £6.6m) and profit before tax was £8.1m (2017: £6.6m).

Cash conversion was reduced, resulting in free cash flow, cash flow from operations after tax and investing activities, of £5.6m (2017: £6.3m). Net cash reduced by £0.5m to £6.8m at 31 December 2018, following the payment of £6.4m in dividends.

Earnings per share

Basic earnings per share increased by 17% to 14.38p (2017: 12.32p). Diluted earnings per share increased to 14.19p (2017: 12.26p).

Dividend policy

Our ordinary dividend policy is to pay a dividend set at approximately 50% of cash flow from operating activities, which is calculated after taxation paid but before capital expenditure.

In addition to this the Board will distribute the excess of gross cash balances over £2m on an annual basis by way of supplementary dividends, subject to a 2p per share de minimis level.

The surplus cash is calculated using the year end gross cash balance and after deduction of the proposed ordinary dividend, and is intended to be paid at the same time as the final dividend. The policy will be subject to periodic review.

Dividend

In the year ended 31 December 2018, the Board decided to pay an interim dividend of 2.4p per ordinary share. This totalled £1.15m and was paid on 14 September 2018 to shareholders on the register as at 17 August 2018.

The Board is recommending a final ordinary dividend of 3.8p per share, together with a supplementary dividend of 6.2p per share, giving a final pay out of 10.0p per share and a total dividend for the year of 12.4p per share.

The final and supplementary dividend amounts to approximately £4.8m in aggregate. Subject to the approval at the forthcoming AGM, this dividend will be paid on 3 May 2019 to shareholders on the register as at 5 April 2019.

Outlook

The Group has made a good start to the year, in line with our expectations. The high levels of recurring revenue, a focus on growth in the core fleet markets in UK, France and the USA and targeting only those insurance opportunities which offer satisfactory margins, underpin our confidence for the rest of the year and beyond.

AGM

The Group's AGM will be held at 11.00 a.m. on 26 March 2019 at the Group's registered office at 9 Dukes Court, 44~62 Newmarket Rd, Cambridge CB5 8DZ.

Paul Boughton
Chairman

Strategic Report: Operational Review

Principal activities

Quartix is one of Europe's leading suppliers of vehicle telematics services. Whilst the origins of the Group's business are in the tracking of commercial vehicles in the UK, it has developed a significant market presence in the fleet sector in France and the USA. Given the success of this internationalisation, the Group will explore the potential for further expansion in Europe during 2019.

Strategy and business model

The Group's main strategic objective is to grow its fleet business and develop the associated recurring revenue by increasing the number of vehicles under subscription. This strategy is based on 5 key elements:

1. *Market development*: focusing on the fleet markets of the UK, France and USA, and exploring further fleet opportunities throughout Europe.
2. *Cost leadership*: developing market-leading processes and efficiencies in all business areas from customer acquisition through to service delivery and support.
3. *Continuous enhancement of the Group's core software and telematics services*: offering a market-leading platform which addresses the most common needs of SME customers in the service sector of each of our target markets
4. *Outstanding service*: providing excellent support for customers and, increasingly, delivering that service through automation and self-service features
5. *Standardisation and centralisation:* achieving economies of scale as we grow, and ensuring that we maintain a common approach to all of our target markets, and tightly controlling the level of back-office and other overhead costs.

Our fleet customers typically use the Group's vehicle telematics services for many years, resulting in low rates of attrition. Accordingly, the Group focuses its business model on the development of subscription revenue based on minimal initial commitment from the customer, providing the best return to the Group over the long term.

The value of recurring subscription revenue is the key measure of our performance in the fleet sector.

We also provide our telematics technology and services to insurers, who use the Group's technology to monitor the driving style and habits of higher-risk drivers, normally for a policy with a term of just 12 months. The level of attrition, in this industry for young driver policies, is relatively high.

Whilst the value of revenue has been the key measurement of our performance in the insurance sector, we restrict our operations to those opportunities which provide an adequate return.

Given the degree of price competition in the insurance market, and the Group's strategic focus on its fleet operations, it is expected that both the proportion and absolute level of the Group's revenues achieved in the insurance sector will continue to decline.

People

We take pride in the level of service we provide, and it is gratifying to see that fleet customers consistently provide us with excellent reviews – both in person and on third-party sites such as TrustPilot, where we have a five-star rating.

We were, once again, included in the London Stock Exchange's list of "1000 Companies to Inspire Britain" and were delighted also to be awarded a Queen's Award for Innovation during the year. The Queen's Award was for the development of our SafeSpeed Database, which provides both insurers and fleet managers with feedback on driving safety which has already been shown to save lives and reduce accidents.

Each of these awards and nominations is a reflection of the commitment, teamwork, creativity and dedication of our people. Our financial performance derives from the customer service we deliver, backed by the technology we develop. I would like to register my personal thanks to every one of our employees who made 2018 another great year for Quartix.

We are pleased to have been able to provide our employees with the ability to participate in the equity of the Company under our EMI share option scheme for the sixth year in a row. Under this scheme each UK employee (barring directors) receives shares in the company at zero cost and which are exercisable approximately 18 months from grant. Employees with 5 years' service at the first grant in 2013 would now hold 3,925 shares in the company, less any disposals. Daniel Mendis, a Director of Quartix Holdings plc, received share option grants in 2018, as disclosed in the remuneration report.

Operational performance

All of our business operations continued to perform at a high level in 2018. Gross margin increased to 67% (2017: 61%), mainly due to a reduction in new insurance contracts and the associated initial contract costs. Overheads increased by 11% and the return on sales before tax increased by 4 percentage points to 31% (2017: 27%). Cash conversion was good with cash flow from operations after tax and investing activities (free cash flow) representing 81% of profit for the year (2017: 108%). The reduction is due to the £1.3m reduction in contract liabilities in 2018. We expense all research and development investment, tracking system and installation costs as they are incurred unless development spend meets the criteria for capitalisation.

Our accounts and operations teams continued to manage working capital well: trade debtors at the year-end were 31 days of sales, and inventory levels remained comparable despite the sales growth. The reduction in contract liabilities was due to the release of deferred contract revenue in the year arising from the reduction in the number of new insurance installations.

Fleet

Our core fleet business, which accounted for 73% of Group revenue (2017: 70%), delivered good progress in a further year of investment. Continued subscription base growth in the UK was combined with excellent progress in France, where our business again made a positive contribution to the Group's results, and in the USA, where our fourth full year of trading saw us reach an installed base of more than 13,000 vehicles under subscription.

During the course of the year we won 3,532 new fleet customers (2017: 2,779). Sales leads continued to be generated through a broad range of media and channels. The efficiency improvements resulted largely from investments made in marketing, technology, processes and training, adding automation wherever possible. This investment will continue in 2019, and the knowledge and experience gained will be used across both existing and new target markets.

Fleet UK (including Ireland)
Demand for vehicle telematics services in the UK continues to grow. We increased our vehicle subscription base by 10% to 91,221 during the year, and our fleet customer base by 8,695. Despite these improvements, however, we were disappointed in the number of new installations made in the first half, which were 14% behind the equivalent period in 2017. Following the process and management changes made during H2, I am pleased to report that we saw significant improvements towards the end of the year, with the deficit compared to 2017 reduced to 6% (2018: 18,583, 2017: 19,714). The improved run-rate has continued into 2019. In total we won 1,654 new customers (2017: 1,700) and we increased the number of fleet clients with 50 vehicles or more. UK fleet revenue was £14.8m (2017: £14.0m). The strength of our brand, service capability and reputation in the UK is leading to higher levels of enquiries from larger fleet prospects.

Our UK website continued to perform well in terms of search engine placement and enquiries, and we continued to add new content to it.

We will continue to focus on telephone based sales capacity to support our fleet marketing initiatives, and will look to find additional channels and partners to help us develop the market.

Fleet France
The number of new installations in the French market was 76% higher than the previous year (6,725 versus 3,819), and there was a 43% increase in the unit base, ending the year with 18,803 vehicles (2017: 13,131) under subscription across 2,474 fleet customers (2017: 1,776). French fleet revenue increased by 27% to €2.8m (2017: €2.2m), making a profitable contribution to the Group. We saw continued growth in new customer acquisition throughout the year, and this was broadly spread across each of our channels. We will make additional investments in this market in 2019, as we now benefit from growing awareness of our brand and product.

Fleet USA
Our fourth full year of trading in the USA showed good progress: we concluded 2018 with 2,007 fleet customers (2017: 1,460) having a total of 13,133 vehicles under subscription (2017: 8,973). USA fleet revenue increased by 34% to $2.0m (2017: $1.5m). Losses incurred in the USA increased by £0.3m to £0.6m (2017: £0.3m) due to the investment in marketing and unit installation costs.

We see significant potential for growth in the USA in the next five years, and have already recruited additional sales staff in 2019, split between our Chicago and Newtown offices. The largest part of this growth came from our direct telephone sales channel. This channel has significant potential for future growth but we also intend to invest more in our price comparison team in Newtown, for which we have recruited additional staff, and our distribution channel based in Chicago, for which we have now appointed a dedicated sales executive.

Fleet revenues in France and the USA combined were £4.0m, representing 21% of total fleet revenue.

Fleet – Poland and Spain
In preparation for an initial launch of our telematics services to a broader European market we recruited 2 people for our Polish sales team in November 2018 and 2 more for a Spanish sales team in January 2019. Both of these teams are based in Newtown, Powys. We do not anticipate the need for further recruitment for these markets in the short term, and all back-office, accounting and systems support for these initiatives will be provided by the same departments in Newtown dealing with our existing markets.

Our approach to these new markets will be based largely on user-install service options and we are delighted to report that our Polish website, application and payment systems, went live at the start of February 2019 and that the Spanish site is expected to follow shortly. The new sites may be viewed at www.quartix.com/pl and www.quartix.es.

Fleet – further market development
Beyond the two new markets described above our first priority is to be able to provide better support for our Spanish-speaking clients in the USA and to offer our services in other European countries and languages.

Insurance
We installed 41,255 new insurance tracking systems in 2018, a decrease of 29% on the prior period. This trend was in keeping with the decision announced in July 2016 to focus on the core fleet market and on only those insurance opportunities which offer satisfactory margins and which are closely aligned to the fleet business.

In line with this strategy, the Group developed and launched an insurance platform in 2016 which appeals to specialist insurance brokers. By the end of 2018 this proposition had been adopted and used by four insurance broker clients. These projects are relatively small in volume, but the development of this platform has offered an opportunity for Quartix to demonstrate the breadth of its capabilities in terms of technology, data analysis and management services. A key part of this is the SafeSpeed Database, which is the result of a 6-year development programme and which is also of particular appeal to medium and large commercial vehicle fleets. As mentioned earlier, we were delighted to receive a Queen's Award for Enterprise for this innovation.

Research and development
The Group is committed to the continuous enhancement of its core software and telematics services, and we aim to offer a market-leading platform which addresses the most common needs of SME customers in the service sector of each of our target markets. We achieved some notable successes in 2018:

1. In October we released a significant update of our complete software application. This brought the user interface into line with the branding and styling of our new website and promotional materials. The new release was extremely well-received by customers and prospects alike, as it not only provides a more modern-looking interface but also makes much better use of the screen and available resources.
2. As part of the development described in (1) above we laid the groundwork for accommodating new markets, languages and character sets, with the ultimate aim of providing the flexibility for users in any location to be configured for use of the application in a broader range of languages than the three previously supported.
3. Alongside these developments we embarked on a programme of creating options within our application, website and mobile applications to simplify the introduction of our service in additional languages and countries. The first two of these (Poland and Spain) went live in February 2019. Developments in our commercial billing systems to support these additional markets will continue during 2019.
4. Further development of our telematics hardware and firmware platforms was carried out during the year, with new user-install options released for both the American and European markets. By the end of the year these were accounting for more than 20% of new installations, and we expect this trend to continue, particularly as a result of the new market initiatives described earlier.

All of our investment in research was fully expensed in the year. The total cost amounted to £1.1m, which represents an increase of 3% compared to the prior year (2017: £1.1m).

Strategic priorities

We believe that the Company has significant opportunity for growth in its fleet business. We ended the year with good growth in new installations and customer acquisition in all existing markets and have taken the decision to make additional investments in business development and market expansion in 2019.

Within the insurance sector, following the strategic decision to move away from low margin insurance sales, we will seek to target those opportunities which allow us to demonstrate and deliver the levels of service quality and value for which we have become known.

Andrew Walters
Chief Executive Officer

Strategic Report: Financial Review

Key Performance Indicators ("KPIs")

Year ended 31 December	2018	2017	% change
Fleet installations (units)	**31,456**	27,227	15.5
Fleet subscription base (units)	**123,157**	105,314	16.9
Fleet customer base	**13,176**	10,961	20.2
Fleet attrition (annualised) (%) [1]	**11.9**	10.1	-
Fleet invoiced recurring revenue[2] (£'000)	**17,246**	15,605	10.5
Fleet revenue (£'000)	**18,751**	17,079	9.8
Insurance installations (units)	**41,255**	57,826	(28.7)
Insurance revenue (£'000)	**6,955**	7,438	(6.5)

[1] Attrition in the year is the number of units installed (excluding upgrades), less the increase in subscription base, expressed as a percentage of the mean subscription base

[2] Invoiced subscription charges before provision for deferred revenue

2018 was a year of good progress in our primary strategic objective of building our fleet subscription base.

We achieved over 31,000 fleet installations, an increase of 15.5% compared to 2017, and our fleet installed base grew by 16.9% to 123,157 units, with growth in all three of our geographical markets.

Attrition during the period increased to 11.9%, partly due to higher attrition levels in the US.

Group invoiced recurring revenue (before adjusting for deferred revenue) grew by 10.5% to £17.3m (2017: £15.6m).

The growth in fleet revenue at 9.8% was in line with the growth of our recurring revenue as our primary focus is on growing subscription revenue.

Insurance unit installations were down 28.7% at 41,255, in keeping with the decision announced in July 2016 to focus on only those insurance opportunities which offer satisfactory margins and which are aligned to our core fleet business.

Financial Overview

Year ended 31 December £'000 (except where stated)	2018	Restated 2017	% change
Revenue			
Fleet	**18,751**	17,079	9.8
Insurance	**6,955**	7,438	(6.5)
Total	**25,706**	24,517	4.8
Gross profit	**17,163**	14,871	15.4
Gross margin	**67%**	61%	
Operating profit	**8,041**	6,622	21.4
Operating margin	**31%**	27%	
Adjusted EBITDA (note 5)	**8,334**	7,228	15.3
Profit for the year	**6,860**	5,846	17.3
Earnings per share	**14.38**	12.32	16.7
Cash generated from operations	**6,825**	7,014	(2.7)
Operating profit to operating cash flow conversion	**85%**	106%	
Free cash flow	**5,583**	6,285	(11.2)

Revenue

The Group has adopted IFRS 15 'Revenue from Contracts with Customers' and the related 'Clarifications to IFRS 15 Revenue from Contracts with Customers' (hereinafter referred to as 'IFRS 15') with effect from 1 January 2018 and applied the fully retrospective application, under which IFRS 15 has been applied to the previous financial year with its results being restated. The net assets at 1 January 2017 were also restated as disclosed in the Consolidated Statement of Changes in Equity. Details of the restatement are included in note 30.

Revenue increased by 4.8% to £25.7m (2017: £24.5m). Fleet revenue, benefitting from past investment, was 9.8% up at £18.8m (2017: £17.1m). Sales to insurance customers decreased by 6.5% to £7.0m (2017: £7.4m). This is in-keeping the Group's stated strategy of focussing on those areas of the market which adequately reward the technology and service which it provides.

Gross margin

Gross margin increased to 67% in the year (2017: 61%), primarily as a result of the deferral of £1.2m of insurance gross margin from the prior year under IFRS 15. This, together with fewer insurance units and installation costs, as well as a higher proportion of fleet sales in the year, combined to increase the gross margin rate. The deferral of £1.2m of insurance gross margin from the prior year has acted to reduce the conversion of operating profit to operating cash flow, since cash is received in advance for insurance contracts rather than on a subscription basis.

Operating profit and Adjusted EBITDA

We continued to invest in our product offering, in our sales structure and in marketing, which led to an increase in overheads of 10.6%. The investment was offset by growth in gross margin and operating profit grew at 21.4% to £8.0m. Adding back depreciation and share-based payment expense gives £8.3m of adjusted EBITDA (2017: £7.2m).

Part of the aforementioned investment was in the USA where our customer base increased by 38% and revenue, as disclosed in note 3, increased to £1.5m ($2.0m) (2017: £1.2m). Losses in the USA were around £0.6m ($0.8m) (2017: losses of £0.3m).

Financial Overview (continued)

Profit for the year

Our effective tax rate benefits from the Group's investment in research and patents in the UK business. The effective rate increased from 11.9% in 2017 to 15.0% in 2018, reflecting higher losses in the US and slightly lower qualifying R&D expenditure and patent box income.

Profit for the year grew by 17.3% to £6.9m (2017 £5.8m).

Earnings per share

Earnings per share increased to 14.38p (2017: 12.32p) and diluted earnings per share increased to 14.19p (2017: 12.26p).

Statement of financial position

Property, plant and equipment, at £0.4m (2017: £0.2m), increased by £0.2m due to the replacement of some of the Group's servers in the year.

Contract liabilities represent customer payments received in advance of satisfying performance obligations, which are expected to be recognised as revenue in 2019 (both fleet and insurance). These unwound to £4.7m in 2018 (2017: £6.0m) and are described further in note 17. Deferred tax assets reduced to nil (2017: £0.8m) as a result of the reduction in contract liabilities relating to 2017.

Trade and other receivables reduced to £2.9m in the year (2017: £3.0m), whilst trade and other payables reduced to £2.8m (2017: £2.9m). Inventories increased to £0.8m (2017: £0.7m). Cash at the year-end was £6.8m (2017: £7.3m).

Cash flow

Cash generated from operations before tax at £6.8m (2017: 7.0m) was 85% of operating profit. As previously stated, the conversion of operating profit to operating cash flow was lower than in 2017 (106%) due to deferred insurance revenue in the year under IFRS 15 'Revenue from Contracts with Customers' for which cash was received in advance.

Tax paid in 2018 was £0.9m (2017: £0.7m), so cash flow from operating activities after taxation but before capital expenditure was £5.9m (2017: £6.3m).

Free cash flow, after £0.3m of capital expenditure and interest received, was £5.6m, a reduction of 11.2% (2017: £6.3m).

The translation of cash flow into dividends is covered in the Chairman's Statement.

Risk Management policies

The principal risks and uncertainties of the Group are as follows:

Attracting and retaining the right number of good quality staff

The Group believes that in order to safeguard the future of the business it needs to recruit, develop and retain the next generation of management. The impact of not mitigating this risk is that the Group ceases to be innovative and provide customers with the vehicle telematics services they require. Considerable focus has been given to recruitment, development and retention. The Group has a range of tailored incentive schemes to help recruit, motivate and retain top quality staff, which include the use of share options.

Financial Overview (continued)

Reliance on Mobile To Mobile ("M2M") network
The Group's service delivery is dependent on a functioning M2M network covering both the internet and mobile data. The impact of not mitigating this risk is that the Group is exposed to an M2M outage. Quartix has dual site redundancy to cover a localised internet problem and we are constantly working on improving the reliability of our systems architecture.

Business disruption
Like any business the Group is subject to the risk of business disruption. This includes communications, physical disruption to our sites and problems with our key suppliers. The impact of not mitigating this risk is that the Group may not be able to service its customers. Quartix has a Business Continuity plan and Business Interruption Insurance to cover certain events in order to help mitigate these risks.

The potential damage to the Group's business as a result of the UK leaving the EU without a negotiated agreement is uncertain but could be considerable. The Group acquires, manages and supports its customers in the EU centrally, from its offices in the UK. Depending on the resulting trading and data adequacy arrangements, it is possible that the Group would need to relocate some of its operations to within the EU. In addition, any impact on the wider economic landscape would impact the Group's trading indirectly through the demand for its services.

Dependence on a key customer
During 2018 insurance revenue of £5.5m (2017: £7.0m) was derived via one insurance customer, a specialist reseller for the insurance industry. Losing this key contract could have a significant negative impact on cash flow in the short term as the Group has a high level of fixed overheads. The Group has taken the strategic decision to move away from low margin insurance sales and widen its insurance customer base, including dealing direct with some specialist insurers.

Cyber security
The Group needs to make sure its data is kept safe and that there is security of supply of date services to customers. The reputational and commercial impact of a security breach would be significant. To combat this, the Group has a security policy and prepares a monthly security report which is reviewed by the Operations Board. This process includes the use of outside consultants for penetration testing and security review.

Technology
Technology risks are perceived to arise from possible substitutes for the current Quartix product. Risks cited include everything from smart mobile phones and their applications to driverless cars.

The Group strategy is to review all new technical developments with the aim of adopting any which will provide a better channel for the information services which Quartix provides.

We believe we have the right strategy and service in place to deliver strong growth in sales over the medium to long term and to deliver sustainable shareholder value.

Daniel Mendis
Chief Financial Officer

The Strategic Report, comprising the Operational Review and Financial Review, was approved by the Board of Directors and signed on behalf of the Board on 22 February 2019.

Andrew Walters
Chief Executive Officer

Corporate Governance Report

Chairman's Corporate Governance Statement

All members of the Board believe strongly in the value and importance of good corporate governance and in our accountability to all of Quartix's stakeholders, including shareholders, staff, customers and suppliers. In the statement below, we explain our approach to governance, and how the Board and its committees operate.

The corporate governance framework which the Group operates, including board leadership and effectiveness, board remuneration, and internal control is based upon practices which the Board believes are appropriate for the size, risks, complexity and operations of the business and is reflective of the Group's values. Of the two widely recognised formal codes, we have therefore decided to adhere to the Quoted Companies Alliance's (QCA) Corporate Governance Code for small and mid-size quoted companies (revised in April 2018 to meet the new requirements of AIM Rule 26).

The QCA Code is constructed around ten broad principles and a set of disclosures. The QCA has stated what it considers to be appropriate arrangements for growing companies and asks companies to provide an explanation about how they are meeting the principles through the prescribed disclosures. We have considered how we apply each principle to the extent that the Board judges these to be appropriate in the circumstances, and below we provide an explanation of the approach taken in relation to each. The Board considers that it has complied with the principles of the QCA Code, with the one exception that we have not yet carried out a formal Board evaluation exercise (albeit this is now in progress).

Roles and responsibilities of Chairman

Paul Boughton, the Non-Executive Chairman since November 2014, is responsible for running the Board and ultimately for all corporate governance matters affecting the Group. He is a chartered accountant and also chairs the Audit Committee. He is an experienced Executive and Non-Executive Director, having been on the Boards of 5 public listed companies, including Quartix.

The Chairman is responsible for leadership of the Board, setting its agenda and monitoring its effectiveness. He ensures effective communication with shareholders and that the Board is aware of the views of major shareholders. He ensures that the Executive Directors develop a strategy which is supported by the Board as a whole. The Executive Directors, through the Chief Executive Officer, are responsible for executing the strategy once agreed by the Board.

Board composition and compliance

The QCA Code requires that the boards of AIM companies have an appropriate balance between Executive and Non-Executive Directors of which at least two should be independent. During 2018 we satisfied this requirement.

The Non-Executive Chairman and Independent Non-Executive Director bring wide and varied commercial experience to the Board and Committee deliberations. They are appointed for an initial three-year term, subject to election by shareholders at the first AGM after their appointment, after which their appointment may be extended subject to mutual agreement and shareholder approval. A Non-Executive Director is typically expected to serve two three-year terms but may be invited by the Board to serve for an additional period. Any term renewal is subject to Board review and AGM re-election. The Company remains committed to a Board which has a balanced representation of Executives and Non-Executives.

Board evaluation

We support the QCA Code's principle to review regularly the effectiveness of the Board's performance as a unit, as well as that of its committees and individual directors, and have recently embarked on the first review. We may consider the use of external facilitators in future board evaluations.

Shareholder engagement

We have made significant efforts to ensure effective engagement with both institutional and private shareholders. In addition to the usual roadshows following the release of full year and interim results, each of which was expanded to include a greater number of existing and potential new investors, we have opened our AGM as a forum to present to and meet with shareholders.

The Board is aware that following the introduction of the Markets in Financial Instruments Directive II (MiFID II) regulations at the start of 2018, private investor access to research on public companies has been restricted. We have not yet commissioned any "paid for" research from third party analysts, and have no current intention of doing so.

The Board has ultimate responsibility for reviewing and approving the Annual Report and Accounts and it has considered and endorsed the arrangements for their preparation, under the guidance of its audit committee. The Directors confirm that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

10 Principles of the QCA Code

1 Establish a strategy and business model which promote long-term value for shareholders

Since 2001 Quartix has become one of Europe's leading suppliers of vehicle telematics services operating in the UK, France and the USA. The Group's main strategic objective is to grow its fleet business and develop the associated recurring revenue by increasing the number of vehicles under subscription. The related insurance business helps to provide economies of scale in areas related to the provision of data services, including development of both hardware and software, supply chain, production and installation.

Whilst the same technology is used for both commercial fleet tracking and insurance telematics, these markets exhibit different characteristics and the Group has established proven business models for each of them.

Fleet customers typically use the Group's vehicle telematics services for many years, resulting in low rates of attrition. Accordingly, the Group focuses its business model on the development of subscription revenue based on minimal initial commitment from the customer, providing the best return to the Group over the long term.

The value of recurring subscription revenue is the key measure of our performance in the fleet sector.

Insurance telematics customers use the Group's technology to monitor the driving style and habits of higher-risk drivers, normally for a policy with a term of just 12 months. Quartix therefore receives the cash in advance from insurance customers. This is standard practice in the industry, as the level of attrition is relatively high. Insurance revenue is recognised on a straight line basis over the contract term, since the customer benefits from the Group's services evenly throughout the contract term and receives the benefit of the services as they are made available.

Whilst the value of revenue has been the key measurement of our performance in the insurance sector, we restrict our operations to those opportunities which provide an adequate return.

The key risks and uncertainties we face are included under the Strategic Report: Financial Review.

2 Seek to understand and meet shareholder needs and expectations

Responsibility for investor relations rests with the CEO, supported by the CFO. During 2018 the following activities were pursued to develop a good understanding of the needs and expectations of all constituents of the Group's shareholder base:

Date	Description	Participants	Comments
Feb 18	Preliminary results meeting	CEO	The CEO and CFO prepare and review with the board detailed presentations covering the Group's activities over the relevant period and takes guidance from each of the joint brokers.
Feb 18	Presentations to institutional investors and analysts	CEO, CFO	
Feb 18	Annual results video	CEO, CFO	Presentations disseminated via website at 7.00 a.m. on morning of results release so all information available publicly available to all shareholders and potential investors. These have been accredited as rating highly for openness and transparency.
Mar 18	AGM	Board	All shareholders invited to attend
Jul 18	Interim results presentations to institutional investors and analysts	CEO, CFO	
Jul 18	Interim results video	CEO, CFO	Presentations disseminated via website (see above)
various	Potential investor meetings	CEO	Presentation to potential investors

Key: CEO: Chief Executive officer Andy Walters, CFO: Chief Financial Officer Dan Mendis

The Group is committed to communicating openly with its shareholders to ensure that its strategy and performance are clearly understood. We communicate with shareholders through the Annual Report and Accounts, full-year and half-year announcements, trading updates and the annual general meeting (AGM), and we encourage shareholders' participation in face-to-face meetings. A range of corporate information (including all Quartix announcements) is also available to shareholders, investors and the public on our website.

Private shareholders: The AGM is the principal forum for dialogue with private shareholders, and we invite all shareholders to attend and participate. The Notice of Meeting is sent to shareholders at least 21 days before the meeting. The chairs of the Board and all committees, together with all other directors, attend the AGM and are available to answer questions raised by shareholders. Shareholders vote on each resolution and subsequently publish the outcomes on our website.

Institutional shareholders: The Directors actively seek to build a mutual understanding of objectives with institutional shareholders. Our CEO and CFO make presentations to institutional shareholders and analysts immediately following the release of the full-year and half-year results. We communicate with institutional investors frequently through formal meetings. The majority of meetings with shareholders and potential investors are arranged by the broking team within the Group's nominated advisor and joint brokers. Following meetings, the brokers provide anonymised feedback to the Board from all fund managers met, from which sentiments, expectations and intentions may be gleaned.

In addition, we review analysts' notes to achieve a wide understanding of investors' views. This information is considered by the Board.

3 Take into account wider stakeholder and social responsibilities and their implications for long-term success

Staff – our ability to fulfil customer requirements and execute our strategy relies on having talented and motivated staff.

Reason for engagement: Good two-way communication with staff is a key requirement for high levels of engagement.

How we engage:
- Weekly update communication.
- Bi-annual staff briefings, with opportunity for staff to ask questions.
- Annual engagement survey.

These have provided insights that have led to enhancement of management practices and staff incentives.

Customers – our success and competitive advantage are dependent upon fulfilling customer requirements, particularly in relation to quality of service and report reliability.

Reason for engagement: Longevity of customer relationships is a key part of our strategy.
Understanding current and emerging requirements of customers enables us to develop new and enhanced services, together with software to support the fulfilment of those services.

How we engage:
- Seek feedback on services and software systems.
- Develop tools and reports to enable our customers to analyse driver behaviour.
- Obtain feedback to use in the development of future service.

Suppliers – We have a range of suppliers including those who provide us with hardware, communication services, installation services and marketing support.

Reason for engagement: Good services from our suppliers are critical to us delivering the data services to our customers.

How we engage:
- Co-ordinate and manage our network of installers to ensure on-time activation of tracking devices.
- Operate systems to ensure that supplier invoices are processed and paid on time.

Shareholders – as a public company we must provide transparent, easy-to-understand and balanced information to ensure support and confidence.

Reason for engagement: Meeting regulatory requirements and understanding shareholder sentiments on the business, its prospects and performance of management.

How we engage:
- Regulatory news releases.
- Keeping the investor relations section of the website up to date.
- Publish videos of investor presentations and interviews.
- Annual and half-year reports and presentations.
- AGM.

We believe we successfully engaged with our shareholders over the past 12 months.

4 Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Group has a risk register that identifies key risks and all members of the Board are provided with a copy of the register. The register, including control mechanisms to mitigate risks, is reviewed bi-annually by the Board and is updated following each such review.

The key risks and uncertainties are included in the Strategic Report: Financial Review.

Staff are reminded on appointment and bi-annual basis that they should seek approval from the CFO if they, or their families, plan to trade in the Group's equities.

The key risks and uncertainties are included in the Strategic Report: Financial Review.

5 Maintain the Board as a well-functioning, balanced team led by the chair

The members of the Board have a collective responsibility and legal obligation to promote the interests of the Group and are collectively responsible for defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with the chair of the Board.

The Board consists of four directors of which two are executive and two are independent non-executives. The Board is supported by three committees: audit, remuneration and nominations. The Board will consider appointing additional non-executive directors as its business expands.

Non-executive Directors are required to attend 10-12 Board meetings per year (in Cambridge, Newtown and London) and to be available at other times as required for face-to-face and telephone meetings with the executive team and investors. In addition they attend Board committee meetings as required.

Meetings held during 2018 and the attendance of Directors is summarised below:

	Board meetings		Audit Committee		Remuneration Committee	
	Possible	Attended	Possible	Attended	Possible	Attended
Executive Directors						
Andy Walters	11	11	0	0	1	1
Ed Ralph (resigned 31 October 2018)	8	8	0	0	0	0
Dan Mendis (appointed 1 January 2018)	11	11	1	1	0	0
Non-Executive Directors						
Paul Boughton	11	10	1	1	1	1
Jim Warwick	11	11	0	0	1	1

The Nominations Committee meets when required in relation to Board appointments.

5 Maintain the Board as a well-functioning, balanced team led by the chair (continued)

The Board has a schedule of regular business, financial and operational matters, and each Board committee has compiled a schedule of work to ensure that all areas for which the Board has responsibility are addressed and reviewed during the course of the year. The Chairman is responsible for ensuring that, to inform decision-making, Directors receive accurate, sufficient and timely information. The Company Secretary, who is also the CFO, compiles the Board and committee papers which are circulated to Directors prior to meetings. The Company Secretary provides minutes of each meeting and every Director is aware of the right to have any concerns minuted and to seek independent advice at the Group's expense where appropriate.

6 Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

All four members of the Board bring relevant sector experience in software and business services. They have an aggregate 47 years of public company directorship experience, and two members are chartered accountants. The Board believes that its blend of relevant experience, skills and personal qualities and capabilities is sufficient to enable it to successfully execute its strategy. Where relevant, Directors research relevant information, including on line material, and occasionally attend seminars and trade events, to ensure that their knowledge remains current. Currently all Board members are male but consideration of new appointments complies with our equal opportunities and diversity policy taking into account the relevant skills and experience of candidates.

Key to committees/roles: E: Executive, N: Nomination, A: Audit R: Remuneration, C Chair

Paul Boughton, Independent Chairman (CN, CA, R)
Background:
Paul is a chartered accountant who has worked at senior level in industry since 1981. His work was primarily in business development and acquisitions, and involved extensive projects in the USA and mainland Europe, which are the primary growth territories for Quartix. Sectors he was involved in were industrial controls, instrumentation and analysers, mainly using a combination of hardware and software. As an executive he served on the Boards of two fully listed companies.

With his only financial or commercial involvement with Quartix being his annual salary as Chairman, and his publicly disclosed shareholding, he is considered independent and with no conflicts of interest with Quartix employees or shareholders.

Current external appointments:
He is a Trustee and Treasurer of two charities, and for each he chairs their Finance and Resources Committee. For one of the charities he also chairs three of their commercial subsidiaries

Skills and experience:
In previous Non-Executive roles he was a Board member of a fintech software and a navigation electronics public company. For both entities he also served as chair of the audit committee, and for one he was also the Senior Independent director. He therefore brings a wide range of relevant skills, commercial experience and governance knowledge to Quartix. He has a BSc degree in Business Economics and is a Chartered Accountant
Time commitment: 1-3 days per month.

6 Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities (continued)

Jim Warwick, Independent Director (N, CR)
Background:
Jim was Technical Director of Analysys Ltd – a telecoms consultancy, involved primarily in financial modelling of telecoms operators. In 2000 he joined Abcam plc as an Executive Director when it had around 7 staff, eventually becoming its COO during his 16 years there. At Abcam he initially headed the development of its online ecommerce systems, and then oversaw its overall operations including international expansion to be a world-wide leader in life-science reagents employing over 1000 staff. Through this he was involved in Abcam's IPO in 2005, as well as several acquisitions.

His only financial involvement with Quartix is his annual non-exec salary and his publicly declared shareholding. He is considered independent with no conflicts of interest with Quartix employees or shareholders.

Current external appointments:
He is currently a non-exec Director of two start-up companies around the Cambridge area, as well as chairing an educational trust.
Skills and experience:
Jim has a MA in Computer Science from the University of Cambridge and has worked in hi-tech industries since graduation in 1986. Jim brings considerable skills relating to IT and e-commerce systems as well as overall experience with international expansion and organisational growth issues very relevant to Quartix.
Time commitment: 1-2 days a month

Andy Walters, Chief Executive Officer (E, N)
Background:
Andy Walters founded Quartix in 2001 with three colleagues. Prior to that he was Managing Director of a subsidiary of Spectris plc for 6 years and had spent 15 years with Schlumberger in the UK and France, where he was marketing director of the payphones and smart cards division.
Current external appointments:
Some voluntary business mentoring for The Prince's Trust.
Skills and experience:
Andy holds an MA in electrical sciences from the University of Cambridge and developed the Company's UK patent, granted under the Patents Act 1977. He has many years' experience of the vehicle tracking market, having started the company in 2001 with three colleagues, and has been fully engaged in all aspects of the business throughout this time.
Time commitment: Full time

Dan Mendis, Chief Financial Officer (E)
Background:
Dan Mendis joined Quartix in 2017. He was previously Head of Finance (Ruminant) at AB Agri Ltd, a subsidiary of Associated British Foods plc, before which he spent four years with Domino Printing Sciences plc in two different Group roles. He has several years' experience of senior management positions and has worked in financial and business roles for fourteen years. He holds an MEng in Engineering Science from the University of Oxford and is a member of the Institute of Chartered Accountants.
Current external appointments:
None
Skills and experience:
Dan has a broad range of financial and business experience, covering areas such as corporate finance, treasury, tax, process review and strategy development.
Time commitment: Full time

7 Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

A board evaluation process led by the Chairman is currently taking place. Directors have completed questionnaires about the effectiveness of the Board and a self-assessment of their own contributions which were returned to the Chairman. The Chairman has reviewed this information and will use it as the basis for an individual discussion with each director, followed by a collective discussion with the Board.

The review is considering effectiveness in a number of areas including general supervision and oversight, business risks and trends, succession and related matters, communications, ethics and compliance, corporate governance and individual contribution.

We will consider the use of external facilitators in future board evaluations.

As the business expands, the Executive Directors will be challenged to identify potential internal candidates who could potentially occupy Board positions and set out development plans for these individuals.

8 Promote a corporate culture that is based on ethical values and behaviours

At Quartix we believe the prosperity of our business and of the communities within which we operate requires a commitment to ethical values and behaviours. We have therefore developed policies that enhance all areas of our business in this regard.

Quartix cares about providing a customer experience that is remarkable. We want to keep our customers happy, impressed and reassured. We want to create the positivity that leads to great reviews, repeat purchases and customer referrals. To achieve that, our employees strive to make every interaction a great one. We follow these principles:

Build meaningful connections.
Whilst dealing with any of our stakeholders, be they customers, partners, investors or employees, foremost in our minds is building great, meaningful relationships. We are not a provider of arms-length transactional services; we are here to listen, understand, support and deliver tangible benefits as best we can.

Keep things simple.
Whether it is our processes, communication, hardware or software, we strive to keep things simple. Fewer moving parts make for clearer, more efficient and reliable operations. We don't make our customers jump through hoops to speak to us, nor do we make them study an article to understand its meaning. We get straight to the incoming call, to the email in our inbox, to the point, and provide a fast, helpful and clear response.

Treat everybody the same.
Whoever you talk to, whether internally or externally, their impression of the Quartix service should be the same. We treat everyone equally, with respect, and remain transparent as a business.

Do the right thing
Quartix cares about doing what's best for our customers and for each other. We own problems and solve them, regardless of whether it's our designated responsibility. With or without a corporate process, we will strive to provide a satisfactory solution in every case.

8 Promote a corporate culture that is based on ethical values and behaviours (continued)

Share your knowledge
Knowledge is valuable. Our customers, prospects and colleagues can all benefit from the knowledge that we have to offer. Quartix and its staff have a whole host of skills, expertise and experience to share with others and we are proud to do so.

The culture of the Group is characterised by these values which are communicated to staff through a number of mechanisms.

The Board believes that a culture that is based on the five core values is a competitive advantage and consistent with fulfilment of the Group's execution of its strategy.

The culture is monitored through the use of a widely-used satisfaction and engagement survey that is operated on an annual basis and to which all permanent staff are invited to contribute. The Operations Board reviews the findings of the survey and determines whether any action is required.

9 Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

The Board provides strategic leadership for the Group and operates within the scope of a robust corporate governance framework. Its purpose is to ensure the delivery of long-term shareholder value, which involves setting the culture, values and practices that operate throughout the business, and defining the strategic goals that the Group implements in its business plans. The Board defines a series of matters reserved for its decision and has delegated some of its responsibilities to Audit, Remuneration and Nominations Committees. The chair of each committee reports to the Board on the activities of that committee.

The **Audit Committee** monitors the integrity of financial statements, oversees risk management and control, monitors the effectiveness of internal controls and reviews external auditor independence.

Paul Boughton is Chairman of the Audit Committee which normally meets once a year. The Committee exists to scrutinise and clarify any qualifications, recommendations and observations within the audited accounts and report of the Company's auditor. When satisfied, the Committee presents the audited accounts and report to the Company's Board and reviews the effectiveness of resultant corrective and preventative measures.

9 Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board (continued)

In performing this function, the key duties of the Committee are to:

- Monitor the integrity of the financial statements of the Group and any formal announcement relating to its financial performance
- With regards to financial reporting, review and challenge the consistency of accounting policies, the use of accounting methods over alternatives, whether the Group has followed appropriate accounting standards, the clarity of disclosure, and all material information relating to the audit and risk management
- Monitor the adequacy and effectiveness of the Group's internal financial controls, including the internal control and risk management systems. The Group's Risk Register is reviewed at least twice a year by the main Board. A list of Matters Reserved for the Board was adopted in January 2016 including ensuring a sound system of internal control and risk management. All systems issues or unexpected outcomes are brought to the attention of the Board.
- Ensure that the Group's arrangements for its employees and contractors to confidentially raise concerns about possible wrongdoing allow proportionate and independent investigation and appropriate follow up action
- Consider the need to implement an internal audit function
- Make recommendations to the Board and the Company's shareholders regarding the appointment, re-appointment, and removal of the Company's external auditor. It ensures that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor
- Oversee the Company's relationship with the external auditor

The **Remuneration Committee** sets and reviews the compensation of Executive Directors including the setting of targets and performance frameworks for cash- and share-based awards.

Jim Warwick chairs the Remuneration Committee. It acts to ensure sound Corporate Governance with respect to Director and senior management remuneration and meets at least twice a year. The Committee functions with the objective of attracting, retaining and motivating the executive management of the Company and ensuring they are rewarded in a fair and responsible manner for their contribution to the success of the Group.

The role of the Committee is to determine and agree with the Board the framework or broad policy for the remuneration of the Company's Chairman and Executive Directors, including pension rights and compensation payments. It also recommends and monitors the level and structure of remuneration for senior management. When setting the remuneration policy, the Committee reviews and considers the pay and employment conditions across the Group, especially when determining salary increases

The **Nominations Committee**
The Nominations Committee is chaired by Paul Boughton. The Committee reviews the structure, size and composition of the Board to ensure the leadership of the Group is the most proficient to facilitate the Group's ability to effectively compete in the marketplace. It makes recommendations to the Board regarding the continued suitability of any Director, the re-election by shareholders of any Director under the 'retirement by rotation' provisions in the Company's Articles of Association, and succession planning for Directors and other Senior Executives. If necessary, the Committee will identify and nominate candidates they believe suitable to fill Board vacancies.

The **Operations Board**, consisting of the Executive Directors and other key executives, and chaired by the CEO, reviews operational matters and the performance of the business and is responsible for significant management decisions whilst delegating other operational matters to individual managers within the business.

9 Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board (continued)

The **Chairman** has overall responsibility for corporate governance and in promoting high standards throughout the Group. He leads and chairs the Board, ensuring that committees are properly structured and operate with appropriate terms of reference, ensures that performance of individual Directors, the Board and its committees are reviewed on a regular basis, leads in the development of strategy and setting objectives, and oversees communication between the Group and its shareholders.

The **CEO** provides coherent leadership and management of the Group and leads the development of objectives, strategies and performance standards as agreed by the Board. He also monitors, reviews and manages key risks and strategies with the Board, ensures that the assets of the Group are maintained and safeguarded, leads on investor relations activities to ensure communications and the Group's standing with shareholders and financial institutions is maintained, and ensures that the Board is aware of the views and opinions of employees on relevant matters.

The **Executive Directors** are responsible for implementing and delivering the strategy and operational decisions agreed by the Board, making operational and financial decisions required in the day-to-day operation of the Group, providing executive leadership to managers, championing the Group's core values and promoting talent management.

The **Independent Non-Executive Directors** contribute independent thinking and judgement through the application of their external experience and knowledge, scrutinise the performance of management, provide constructive challenge to the Executive Directors and ensure that the Group is operating within the governance and risk framework approved by the Board.

The **Company Secretary** is responsible for providing clear and timely information flow to the Board and its committees and supports the Board on matters of corporate governance and risk.

The key matters reserved for the Board are:

- Setting long-term objectives and commercial strategy.
- Approving annual budgets.
- Changing the share capital or corporate structure of the Group.
- Approving half-year and full-year results and reports.
- Approving dividend policy and the declaration of dividends.
- Ensuring a satisfactory dialogue with shareholders
- Approving major investments, disposals, capital projects or contracts.
- Approving resolutions to be put to general meetings of shareholders and the associated documents or circulars.
- Approving changes to the Board structure.

The Board has approved the adoption of the QCA Code as its governance framework against which this statement has been prepared and will monitor the suitability of this code on an annual basis and revise its governance framework as appropriate as the Group evolves.

The Board will continue to monitor its governance structures as the Group grows and will take action as appropriate to develop and enhance its governance functions.

10 Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

In addition to the investor relations activities described previously, the following audit, remuneration and nominations committee reports were provided during 2018:

Audit Committee Report
During 2018, the Audit Committee continued to focus on the effectiveness of the controls throughout the Group. The Audit Committee is chaired by Paul Boughton. The committee met formally once, and had other discussions (including with the auditors) as required, and the external auditor and CFO were invited to attend the formal meeting.

Consideration was given to the auditor's pre- and post-audit reports and these provide opportunities to review the accounting policies, internal control and the financial information contained in the annual report.

Remuneration Committee Report
The remit of the Remuneration Committee is to determine the framework, policy and level of remuneration, and to make recommendations to the Board on the remuneration of Executive Directors. In addition, the committee oversees the creation and implementation of all-employee share plans. The Remuneration Committee consists of Paul Boughton and Jim Warwick. The committee met once.

In setting remuneration packages the committee ensured that individual compensation levels, and total board compensation, were comparable with those of other AIM-listed companies.

During 2018 the Remuneration Committee granted options over ordinary shares in the Company to Executive Directors and employees of the Company.

In granting these options, the Remuneration Committee's objective was to attract, motivate and retain key staff over the long term, designed to incentivise delivery of the Company's growth objectives.

Nomination Committee Report
The remit of the Nomination committee is to evaluate potential Board appointments against the skills and experience which the Board requires. It meets as required for this purpose.

The Nomination committee is chaired by Paul Boughton and also includes Jim Warwick and Andy Walters.

Directors' Remuneration Report

During the year ended 31 December 2018 the Remuneration Committee consisted of both non-executive directors and was chaired by Jim Warwick.

The Committee functions with the objective of attracting, retaining and motivating the executive management of the Company and ensuring they are rewarded in a fair and responsible manner for their contribution to the success of the Group.

Remuneration of Executive Directors

In 2018, the Directors' remuneration packages comprised of a salary and the opportunity to enrol in the Governments' auto-enrolment pension scheme. The Remuneration Committee, at the Executive Directors' request, concluded that no bonus or other benefits, with the exception of share option grants noted below, would be paid in 2018. See below for a breakdown of the Directors' remuneration packages during the year.

Non-Executive Directors

A Non-Executive Director is typically expected to serve two three-year terms but may be invited by the Board to serve for an additional period. Any term renewal is subject to Board review and AGM re-election.

		Date of contract	**Unexpired period at date of report**
Paul Boughton	Chairman	1 May 2017	14 months
Jim Warwick		1 May 2017	14 months

Directors' detailed emoluments and compensation (audited)

		2018 (£)			2017 (£)
		Salary	**Pension**	**Total**	Total
Executive Directors	Andrew Walters	87,182	-	87,182	85,056
	Edward Ralph[1]	153,228	2,781	156,009	47,731
	Daniel Mendis[2]	97,692	1,750	99,442	-
	David Bridge[3]	5,923	72	5,995	84,271
		344,025	4,603	348,628	217,058
Non-Executive Directors	Paul Boughton	50,000	-	50,000	50,000
	Jim Warwick	40,000	-	40,000	38,333
		90,000	-	90,000	88,333

[1] Highest paid director in 2018
[2] Appointed on 1 January 2018
[3] Resigned on 22 February 2018

Directors and their interests in shares

Year ended 31 December		Ordinary shares £0.01 each 2018	2017
Executive Directors	Andrew Walters[1]	**17,855,986**	17,855,986
	Daniel Mendis	**-**	-
	Edward Ralph	**n/a**	97,573
	David Bridge	**n/a**	2,600,500
		17,855,986	20,554,059
Non-Executive Directors	Paul Boughton	**53,889**	53,889
	Jim Warwick	**73,333**	73,333
		17,983,208	20,681,281

[1] Includes shares held as family interests or by virtue of position as beneficiary or potential beneficiary of certain trusts

Directors and employees share options

On 13 August 2018, Edward Ralph exercised 86,956 options awarded in January 2017.

During the period under review the Remuneration Committee granted options over ordinary shares in the company to Daniel Mendis and employees of the company, of which a proportion were to replace certain options previously issued. In granting these options, the Remuneration Committee's objective was to attract, motivate and retain key staff over the long term, designed to incentivise delivery of the company's growth objectives.

Following the management changes announced by the Company on 4 October 2018, Daniel Mendis, Chief Financial Officer, assumed additional responsibilities and in lieu of an increase in his base salary, to reflect these additional responsibilities, the Remuneration Committee agreed to the rebasing of 92,592 of the 280,000 options over ordinary shares of 1 pence each ("Ordinary Shares") granted to him on 1 December 2017. As a consequence, Mr Mendis has 187,408 options at the original exercise price of £3.60 which are governed by the original terms announced at that time and 92,592 options at an exercise price of £2.70 ("New Options"), being the closing mid-market price of the Company's Ordinary Shares on 4 December 2018. The New Options vest dependent on certain performance targets linked to the growth in the Company's fleet subscription base and the Company's generation of free cash flow in each of 2019, 2020 and 2021. The New Options are exercisable in three annual tranches, the first of which will follow the announcement of the Company's 2019 final results (expected to be in late February or early March 2020), and are subject to certain minimum holding periods.

The Company also granted 92,592 options over Ordinary Shares to Peter Brown, Systems Director of the main trading subsidiary and Operations Board Director. The terms of these options are identical to those of the New Options granted to Mr Mendis.

The Remuneration Committee also granted 372,592 options over Ordinary Shares to senior managers, to replace 340,000 options granted between October 2016 and June 2018, plus a further 405,000 options to managers, on identical terms to the New Options granted to Mr Mendis.

Jim Warwick
Chairman, Remuneration Committee

Directors' Report

The Directors present their annual report and the financial statements of the Company for the year ended 31 December 2018.

Principal activity

The principal activity of the Group during the year was the design, development, marketing and delivery of vehicle telematics services. The Group has an overseas branch in France and an overseas subsidiary in the USA. The Parent Company is incorporated and domiciled in the UK. The registered office is 9 Dukes Court, 44~62 Newmarket Rd, Cambridge CB5 8DZ.

Research and development

Please see the Strategic Report on page 9 for further information about the Group's approach to research and development.

Future developments

The Company's intentions regarding investment and business development can be found under Strategic priorities on page 10.

Proposed dividend

In the year ending 31 December 2018, the Board decided to pay an interim dividend of 2.4p per ordinary share. This totalled £1.14m and was paid on 14 September 2018 to shareholders on the register as at 18 August 2018.

The Board is recommending a final dividend of 3.8p per share, together with a supplementary dividend of 6.2p per share, giving a final payment of 10.0p per share, amounting to approximately £4.8m in aggregate and giving a total dividend for the year equivalent to 12.4p per share. If this is approved at the forthcoming AGM on 26 March 2019, the final dividend will be paid on 3 May 2019 to shareholders on the register as at 5 April 2019.

Major interest in shares

On 22 February 2019, the Company had been notified that six parties had holdings of 3% or more in the ordinary share capital of the Company. The number of ordinary shares and the percentage of the total shares held by each party is outlined below.

	Number of £0.01 shares	% of total
Andrew Walters[1]	17,855,986	37.3
Liontrust Investment Partners LLP	5,135,447	10.7
Cat Rock Capital Master Fund LP	4,100,485	8.6
Andrew Kirk	4,009,853	8.4
William Hibbert	2,663,000	5.6
BlackRock, Inc.	2,425,244	5.1
Kenneth Giles	1,871,800	3.9

[1] Includes shares held as family interests or by virtue of position as beneficiary or potential beneficiary of certain trusts

Directors

The Non-Executive Directors who held office during the year are listed below:

- Paul Boughton (Chairman)
- Jim Warwick

The Executive Directors who held office during the year are listed below:

- Andrew Walters
- Daniel Mendis (appointed 1 January 2018)
- Edward Ralph (resigned 31 October 2018)
- David Bridge (resigned 11 January 2018)

All Executive Directors have service agreements with the Company terminable by either party upon the minimum notice period being met. The minimum notice period is 12 months for Andrew Walters and 6 months for Daniel Mendis, who was appointed Chief Financial Officer on 1 January 2018.

The Company's Articles of Association require all Directors to stand for re-election each year at the AGM. The next AGM will take place on 26 March 2019.

Going concern

The Board takes all reasonable steps to review and consider any factors that may affect the ability of the Group to continue as a going concern.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group is able to generate sufficient liquidity.

The Group enjoys a strong income stream from its fleet subscription base while current liabilities include a substantial provision for deferred revenue which is a non cash item.

After assessing the forecasts and liquidity of the business for the next two calendar years and the longer term strategic plans, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing consolidated financial statements.

Directors' responsibilities statements

The Directors are responsible for preparing the Strategic Report, Remuneration Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company Law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws including FRS 101 Reduced Disclosure Framework). Under Company Law the Directors must not approve the financial statements unless they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period.

Directors' responsibilities statements (continued)

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the consolidated financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company financial statements

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial risk management policies and objectives

The Group manages its key financial risks as follows. Further details are provided in note 26.

Credit risk

The principal credit risk relates to trade receivables and is mitigated, where possible, by third party credit clearance for new customers and collection by direct debit, or similar. The Group seeks to manage credit risk associated with cash deposits by using banks with high credit ratings assigned by international credit rating agencies.

Currency risk

This is managed by seeking to match currency inflows and outflows.

Directors' and officers' liability insurance

The Company maintains insurance cover for the Directors and key personnel against liabilities which may be incurred by them while carrying out their duties.

Auditors

The Directors have individually pursued all steps that they ought to have taken in their roles as Directors to ensure they are aware of any relevant audit information and that such information has been relayed to the Company's auditors. The Directors each confirm that there is no relevant information of which the Company's Auditors are unaware.

The Auditor, Grant Thornton UK LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

Approved by the Board of Directors and signed on behalf of the Board on 22 February 2019.

Andrew Walters
Chief Executive Officer

Independent Auditor's Report to the Members of Quartix Holdings plc

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Quartix Holdings plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2018, which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Parent Company Statement of Financial Position, the Parent Company Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosures Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

- Overall Group materiality: £405,000, which represents 5% of the Group's pre-audit profit before taxation
- Key audit matters were identified as revenue recognition and deferred revenue
- We performed full scope audit procedures on the financial statements of Quartix Holdings Plc and on the financial information of Quartix Limited. We performed targeted audit procedures on the financial information of Quartix Inc. There were no changes in scope from the prior year.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Revenue recognition	
Under International Standard on Auditing (UK) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. The Group's principal revenue stream relates to the provision of telematics vehicle tracking services, including data services, to customers. The Group has two types of customers, fleet and insurance and revenue is recognised over the period that services are provided. Revenue recognition requires accurate capturing of the number of units installed for each customer. During the period the Group adopted IFRS 15. Under IAS 18, the Group recognised revenue from hardware and installation services upon installation of a unit, or dispatch if self-installed by the customer. Under IFRS 15, the Group's activities of supplying telematics units and installing telematics services, together with the provision of data services, are considered to be a single performance obligation.	Our audit work on revenue separately addressed the two types of customers, fleet and insurance. A combination of analytical procedures and substantive testing was performed on each class of customers revenue documented below: • Assessing whether revenue recorded in the period was consistent with the Group's accounting policy and whether that was compliant with IFRS 15; and • Identifying revenue journals then classifying them by type and testing them as appropriate depending on their nature and associated risk. **Fleet customer revenue** We performed the following tests on fleet customer revenues: • For a sample of signed contracts we agreed contract data relating to customer, price and units had been accurately included in the marketing database. • We tested the accuracy of sales invoicing by agreeing a sample of sales invoices to the customer data maintained in the marketing database; and

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Consequently, the Group no longer recognises revenue separately for these goods and services but recognises this revenue together with the provision of vehicle telematics services. Key to the appropriate recognition of this revenue is the capture of customers contractual information in the marketing database. The Group operates a control whereby a signed contract is obtained for every customer before customer contractual information (number of units, price per unit) is entered into the marketing database. Revenue is a material figure in the financial statements (2018 £25,706,000; 2017 restated £24,517,000). Fleet customers account for 73% (2017 70%) of revenue and Insurance customers account for 27% (2017 30%) of revenue. We therefore identified revenue occurrence as a significant risk, which was one of the most significant assessed risks of material misstatement. The Group's accounting policy on revenue recognition is set out in note 1 to the financial statements and related disclosures are included in note 3	• For a sample of sales invoices raised we agreed the units and price to the marketing database and to subsequent receipts of cash from customers to evidence the occurrence of revenue. **Insurance customer revenue** • We performed a 'proof-in-total' of revenue for the Group's significant insurance customers. We verified the inputs to our calculation through a combination of (i) obtaining third party confirmations directly from those insurance customers to confirm the number of units installed and (ii) inspecting correspondence with customers as to the price to be paid per unit. This corroborated the number of units installed and their associated unit prices against the underlying sales invoices. **Key observations** Based on our audit work we consider the Group's revenue recognition to be appropriate and in accordance with IFRS 15.
Deferred revenue	
The Group invoices in advance and classifies deferred revenue as contract liabilities (2018 £4,655,000; 2017: £5,972,000). Under IAS 18, the Group recognised revenue from hardware and installation services upon installation of a unit, or dispatch if self-installed by a customer. Under IFRS 15 the Group's sales of telematic units and services are considered to be a single performance obligation, which is satisfied over the contractual period of one year. The deferred revenue balance is driven by the contract terms and number of units and presents a risk of material misstatement if the data is not captured appropriately. Together with our work on revenue occurrence, the deferred revenue element requires significant auditor attention.	Our audit work on deferred revenue addressed the Group's two types of customers, fleet and insurance. Our audit work included, but was not restricted to: • For a sample of sales invoices, recalculating the appropriate portion of revenue to defer and comparing that to the actual amount deferred. • Recalculating fleet and insurance customers deferred revenue balances based on contractual terms from the month of installation. • Recalculating the year end deferred revenue balance based on invoicing in the final quarter; and

Key Audit Matter – Group	**How the matter was addressed in the audit – Group**
We therefore identified deferred revenue as a significant risk, which was one of the most significant assessed risks of material misstatement. The Group's accounting policy on revenue recognition is set out in note 1 to the financial statements.	• Undertaking an assessment of the impact of the adoption of IFRS 15 and the resulting change in timing of revenue for units purchased by insurance customers, recalculating revenue recognised and deferred over the contractual period for the provision of vehicle telematics services. **Key observations** Based on our audit work we consider the Group's revenue recognition and deferral to be appropriate and in accordance with IFRS 15.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality measure	**Group**	**Parent**
Financial statements as a whole	£405,000, which represents 5% of the Group's expected profit before taxation. This benchmark is considered the most appropriate because the Group is a commercially focused organisation and profit before taxation is a key financial measure for the directors and the shareholders. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2017 to reflect the increase in the Group's profit before taxation.	£209,000, which is 1% of the parent company's total assets. This benchmark is considered the most appropriate because the entity is a non-trading holding company. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2017 reflecting the increase in the company's total assets.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.
Specific materiality	Directors' remuneration and transactions with related parties have a specific materiality of £20,000 as the nature of these transactions and disclosures	Directors' remuneration and transactions with related parties have a specific materiality of £10,000 as the nature of these transactions and disclosures

	have a lower tolerance of errors as reflected by this rate.	have a lower tolerance of errors as reflected by this rate.
Communication of misstatements to the audit committee	£20,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£10,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the Group's business, its environment and risk profile. We considered the size and risk profile of each entity, any changes in the business and other factors when determining the level of work to be performed on the financial information of each entity, which, in particular included:

- Assessing the risk of material misstatement to the Group financial statements. We considered the transactions undertaken by each entity and therefore where the focus of our work was required.
- Full scope audit procedures were completed for the main trading subsidiary, Quartix Limited, which provides services to customers based in the UK, France and the Republic of Ireland. Full scope audit procedures were performed for the parent, Quartix Holdings Plc, which is a non-trading holding company. Targeted audit procedures were performed for Quartix Inc which provides services to US based customers.
- The total percentage coverage of full scope procedures over the Group's total revenues was 100% and total assets was 99%.
- All accounting is centralised, and we completed our onsite audit work at the Group's main operating location with all audit work undertaken by the Cambridge based group audit team.
- The audit risks identified for each trading component are the same audit risks identified for the Group as a whole.
- Our audit approach in the current year included a combination of controls testing and substantive testing compared to a purely substantive audit approach for the year ended 31 December 2017.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 30, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Adrian Bennett
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge
22 February 2019

Consolidated Statement of Comprehensive Income

Year ended 31 December	Notes	**2018** **£'000**	Restated 2017 £'000
Revenue	3,4	**25,706**	24,517
Cost of sales		**(8,543)**	(9,646)
Gross profit		**17,163**	14,871
Administrative expenses		**(9,122)**	(8,249)
Operating profit		**8,041**	6,622
Finance income receivable	8	**29**	17
Profit for the year before taxation	5	**8,070**	6,639
Tax expense	9	**(1,210)**	(793)
Profit for the year		**6,860**	5,846
Other Comprehensive (expense)/income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translating foreign operations		**(158)**	201
Tax benefit (expense)		**-**	-
Other comprehensive income for the year, net of tax		**(158)**	201
Total comprehensive income attributable to the equity shareholders of Quartix Holdings plc		**6,702**	6,047
Earnings per ordinary share (pence)	10		
Basic		**14.38**	12.32
Diluted		**14.19**	12.26

Consolidated Statement of Financial Position

Company registration number: 06395159

	Notes	**31 December 2018**	31 December 2017 Restated	1 January 2017 Restated
		£'000	£'000	£'000
Assets				
Non-current assets				
Goodwill	11	**14,029**	14,029	14,029
Property, plant and equipment	12	**433**	234	360
Deferred tax assets	18	**9**	768	765
Total non-current assets		**14,471**	15,031	15,154
Current assets				
Inventories	13	**771**	703	680
Trade and other receivables	14	**2,937**	3,009	2,591
Cash and cash equivalents	15	**6,779**	7,312	6,249
Total current assets		**10,487**	11,024	9,520
Total assets		**24,958**	26,055	24,674
Current liabilities				
Trade and other payables	16	**2,814**	2,853	2,892
Contract liabilities	17	**4,655**	5,972	5,884
Current tax liabilities		**99**	423	238
		7,568	9,248	9,014
Total liabilities		**7,568**	9,248	9,014
Net assets		**17,390**	16,807	15,660
Equity				
Called up share capital	19	**478**	476	474
Share premium account	19	**5,196**	4,869	4,702
Equity reserve		**390**	529	281
Capital redemption reserve		**4,663**	4,663	4,663
Translation reserve		**(261)**	(103)	(304)
Retained earnings		**6,924**	6,373	5,844
Total equity attributable to equity shareholders of Quartix Holdings plc	28	**17,390**	16,807	15,660

Approved by the Board of Directors, authorised for issue and signed on behalf of the Board on 22 February 2019.

Andrew Walters
Chief Executive Officer

Consolidated Statement of Changes in Equity

	Share capital £'000	Share premium account £,000	Capital redemption reserve £'000	Equity reserve £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 31 December 2016	474	4,702	4,663	281	(304)	8,513	18,329
IFRS 15 adjustment (note 30)	-	-	-	-	-	(2,669)	(2,669)
Restated balance at 31 December 2016	**474**	**4,702**	**4,663**	**281**	**(304)**	**5,844**	**15,660**
Shares issued	2	167	-	-	-	-	**169**
Increase in equity reserve in relation to options issued	-	-	-	420	-	-	**420**
Adjustment for exercised options	-	-	-	(104)	-	104	**-**
Deferred tax on share Options	-	-	-	(68)	-	-	**(68)**
Dividend paid	-	-	-	-	-	(5,421)	**(5,421)**
Transactions with owners	**2**	**167**	**-**	**248**	**-**	**(5,317)**	**(4,900)**
Foreign currency translation differences	-	-	-	-	201	-	**201**
Restated profit for the year	-	-	-	-	-	5,846	**5,846**
Total comprehensive income	**-**	**-**	**-**	**-**	**201**	**5,846**	**6,047**
Restated balance at 31 December 2017	**476**	**4,869**	**4,663**	**529**	**(103)**	**6,373**	**16,807**
Shares issued	2	327	-	-	-	-	**329**
Increase in equity reserve in relation to options issued	-	-	-	108	-	-	**108**
Adjustment for exercised options	-	-	-	(133)	-	133	**-**
Deferred tax on share Options	-	-	-	(114)	-	-	**(114)**
Dividend paid	-	-	-	-	-	(6,442)	**(6,442)**
Transactions with owners	**2**	**327**	**-**	**(139)**	**-**	**(6,309)**	**(6,119)**
Foreign currency translation differences (note 26)	-	-	-	-	(158)	-	**(158)**
Profit for the year	-	-	-	-	-	6,860	**6,860**
Total comprehensive income	**-**	**-**	**-**	**-**	**(158)**	**6,860**	**6,702**
Balance at 31 December 2018	**478**	**5,196**	**4,663**	**390**	**(261)**	**6,924**	**17,390**

Consolidated Statement of Cash Flows

	Notes	2018 £'000	Restated 2017 £'000
Cash generated from operations	21	**6,825**	7,014
Taxes paid		**(889)**	(679)
Cash flow from operating activities		**5,936**	6,335
Investing activities			
Additions to property, plant and equipment	12	**(382)**	(67)
Interest received	8	**29**	17
Cash flow used in investing activities		**(353)**	(50)
Cash flow utilised in operating activities after investing activities (free cash flow)		**5,583**	6,285
Financing activities			
Proceeds from share issues		**329**	169
Dividend paid		**(6,442)**	(5,421)
Cash flow from financing activities		**(6,113)**	(5,252)
Net changes in cash and cash equivalents		**(530)**	1,033
Cash and cash equivalents, beginning of year		**7,312**	6,249
Exchange differences on cash and cash equivalents	26	**(3)**	30
Cash and cash equivalents, end of year	15	**6,779**	7,312

Notes to the Consolidated Financial Statements

1 Summary of significant accounting policies

Basis of accounting

These financial statements are consolidated financial statements for the Group consisting of Quartix Holdings plc, a company registered in the UK, and all its subsidiaries. These consolidated financial statements are for the year ended 31 December 2018 and are prepared in Sterling and are rounded to the nearest thousand pounds (£'000). They have been prepared in accordance with IFRS as adopted by the European Union (EU) ('IFRS') and in accordance with those parts of the Companies Act 2006 that are relevant to companies which report under IFRS.

These financial statements have been prepared under the historical cost convention.

The Group has adopted IFRS 15: Revenue from Contracts with Customers, and Clarifications to IFRS 15 – Revenue from contracts with customers (hereinafter referred to as 'IFRS 15') and IFRS 9: Financial Instruments.

The adoption of IFRS 15, as at 1 January 2018, has had a significant impact on the Group's financial position and cash flow. Consequently, it has been adopted retrospectively so that the comparative figures for the year ended 31 December 2017 have been restated on a consistent basis (see note 1 Revenue recognition and 30).

The Group has adopted IFRS 9 and applied it as at 1 January 2018. It has not, as permitted by IFRS 9, restated prior period and has not made a prior year adjustment in respect of the carry value of financial assets at 1 January 2018 since the impact of the implementation of IFRS 9 was not significant (see note 1 Financial assets and 31).

The standards and interpretations in issue but not effective for accounting periods commencing on 1 January 2019 that may impact on Quartix Holdings plc going forward are listed below. Quartix Holdings plc has not adopted these early.

Outlook for adoptions of future standards (new and amended)

At the date of authorisation of the consolidated financial information, the following standards and interpretations which have not yet been applied in the consolidated financial information were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

Number	Title	Effective
IFRS 16	Leases	1 January 2019
Annual Improvements	2015-2017 Cycle	1 January 2019

IFRS 16 'Leases' will replace IAS 17 'Leases', under which leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease lability. It is effective for accounting periods beginning on or after 1 January 2019.

1 Summary of significant accounting policies (continued)

The Group has completed an initial assessment of the impact of the standard and is in the process of:

- Performing a full review of all agreements to identify contracts that will become lease contracts under IFRS 16's new definitions. The main agreements will relate to the Group's commercial property leases in the UK and USA.
- Confirming which transitional provisions to adopt
- Determining which optional accounting simplifications are available and whether to apply them
- Assessing the additional disclosures that will be required

The initial conclusions are that for transition, the Group will use the practical expedient available to not reassess whether a contract is, or contains, a lease at the date of initial application. Instead, as permitted, it will apply IFRS 16 retrospectively with the cumulative effect of initially applying the Standard recognised at the date of initial application and will not restate comparative information. Instead, the Group shall recognise the cumulative effect as an adjustment to the opening net assets.

Consequently, the Group will:

- recognise a lease liability at the date of initial application, for leases previously classified as an operating lease under IAS17, at the present value of the remaining lease payments, discounted using the Group's estimated incremental borrowing rate at the date of initial application.
- Recognise a right of use asset at the date of initial application, for leases previously classified as an operating lease under IAS17, at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application

The Group will elect not to apply the requirements of IFRS 16 to either short-term leases or leases for which the underlying asset is of low value. The Group will recognise the lease payments associated with those leases as an expense on a straight line basis.

The Group has not completed its assessment but the financial impact of the adoption of IFRS 16, is estimated to result in a reduction in the Group's annual operating expenses of £0.2~0.3m and additional depreciation costs of £0.2m and finance costs payable of £0.02m. Right to use assets capitalised are estimated to be £0.5m, with a corresponding obligations to pay rentals estimated at £0.5~0.6m.

Basis of consolidation

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control is achieved where the Company has the power over an investee entity, currently obtained through ownership of the share capital, so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. A list of subsidiaries is included note 29.

1 Summary of significant accounting policies (continued)

Going concern

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group is able to generate sufficient liquidity.

The Group enjoys a strong income stream from its fleet subscription base while current liabilities include a substantial provision for deferred revenue which is a non cash item.

After assessing the forecasts and liquidity of the business for the next two calendar years and the longer term strategic plans, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing consolidated financial statements.

Segmental reporting

The Group has concluded that it operates only one segment as defined by IFRS 8. The information used by the Group's chief operating decision makers, who are considered to be the Operations Board, to make decisions about the allocation of resources and assessing performance is presented in a format consistent with that repeated in the financial statements. Assets are not directly attributable to any separate activity.

Revenue recognition

Revenue is the amount receivable for goods and services, excluding sales taxes, rebates, and trade discounts.

Revenue comprises the provision of telematics-based fleet and vehicle management solutions. Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

As noted in Basis of Accounting above, the Group has adopted IFRS 15 with effect from 1 January 2018 and applied the fully retrospective application, under which IFRS 15 has been applied to the previous financial year with its results being restated.

Under IFRS 15, the Group must evaluate the separability of the promised goods or services based on whether they are 'distinct'. A promised good or service is 'distinct' if both:

- the customer benefits from the item either on its own or together with other readily available resources; and
- it is 'separately' identifiable (i.e. the Group does not provide a significant service integrating, modifying or customising it).

Previously, revenue from hardware sales, including insurance telematics contracts, was recognised upon installation of the unit or despatch of the unit if the customer did their own installation. Revenue from installation was recognised upon installation and revenue from the provision of telematics-based fleet and vehicle management solutions was recognised over the period in which the service was provided.

The Group completed a detailed assessment of its sources of revenue and assessed whether the components of hardware, installation of hard-wired units by an engineer (not required for self-install unit) and data services are distinct under the new definitions of IFRS 15.

The tracker hardware can't be utilised by a competitor and neither can it be sourced from an alternative supplier. The tracking services can't be delivered until a unit is successfully installed, which in the case of a hardwired device normally requires an engineer. Therefore, the Group concluded that the Group's activities of supplying telematics units and installing telematics units are not distinct and are activities the Group undertakes to provide its telematics services and are supplied as part of a contract with the customer. This means that the Group considers these goods and services as one single performance obligation. Consequently, the Group no longer recognises revenue separately for these goods and services; rather, it recognises this revenue together as the provision of vehicle telematics services.

1 Summary of significant accounting policies (continued)

Revenue recognition (continued)
The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as contract liabilities in the statement of financial position (see note 17).

If the Group satisfies a performance obligation before it received the consideration, the Group recognises a receivable in its statement of financial position. The Group does not presently have any contract assets.

In relation to costs, the hard-wired unit and associated installation costs are recognised when the Group relinquishes control of the unit since, once installed, the unit relates to both unsatisfied performance obligations and to satisfied performance obligations (or partially satisfied performance obligations). The Group outsources the installation of hard-wired units to its large base of skilled engineers. In the case of 'self-install' units, which customers are able to physically install into their vehicles themselves, the Group's judgement is that it still has obligations in relation to the technical set-up of these units (including connectivity). Self-install units currently form a small part of the Group's sales; however, the Group will keep this judgement under review.

Whilst not all of the commissions that the Group pays are wholly directed at obtaining specific contracts, it is possible to separate out the commissions which are directed in this way. The large majority of contracts which the Group enters into with customers are 12 months in length and the Group therefore chooses to use the practical expedient under IFRS15 to expense these commissions as an expense when incurred. This policy will, however, be kept under review to see if it needs to be updated if the nature of the Group's sales changes.

Further information on the impact of the new policy is disclosed in note 30.

Insurance telematic services
For insurance telematic services, the customer commits to purchase data services for 12 months. Quartix raises a single invoice upon installation of the unit, payable in the following month, with revenue recognised over the 12 month period on a straight line basis, since the customer benefits from the Group's services evenly throughout the contract term and receives the benefit of the services as they are made available. The contract price, which is subject to periodic review, is set for each insurance customer, depending on the level of services provided.

If the driver's policy is extended, then Quartix will raise further charges, these are invoiced either as a one-off annual fee or as monthly fees, depending upon the contractual arrangements, which are payable within 30 days.

Fleet telematic services
Fleet customers enter into contracts typically with a commitment to purchase data services for 12 months. The price is fixed for the contract term. Generally invoices are raised quarterly in advance, with payment due within 30 days. Quartix satisfies its performance obligations over time as services are rendered.

If promotional offers include any free months, then total revenue is allocated on a straight line basis over the whole period of data services in accordance with the performance obligations, since the customer benefits from the Group's services evenly throughout the contract term and receives the benefit of the services as they are made available.

Support Services
Quartix performs additional services, such as removing, upgrading or transferring units to alternative vehicles, and theft tracking. These are considered to be separate performance obligations for which a separate charge and invoice is raised. Revenue is recognised once the additional service obligation has been delivered to the customer.

1 Summary of significant accounting policies (continued)

Intangible assets

Goodwill arising on consolidation represents the excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the identifiable assets and liabilities (including intangible assets) of the acquired entity at the date of the acquisition. Goodwill is recognised as an asset and assessed for impairment annually or as triggering events occur. Any impairment is recognised immediately in profit or loss.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment.

Depreciation

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method, on the following bases:

- Tools and equipment 25% straight line
- Office equipment 25% straight line
- Leasehold improvements The life of the lease

Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred. In the event that an internally generated intangible asset arises from the Group's development activities then it will be recognised only if all of the following conditions are met:

- Technical feasibility of completing the intangible asset
- The ability to use the asset.
- An asset is created that can be identified (such as software and new processes)
- It is probable that the asset created will generate future economic benefits
- The development cost of the asset can be measured reliably

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment testing of intangible assets and property, plant and equipment

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors. The cash-generating units are the separate legal entities within the Group as there is no segmentation in the subsidiaries.

Property, plant and equipment are tested for impairment if events or changes in circumstances (assessed at each reporting date) indicate that the carrying amount may not be recoverable.

If a cash-generating unit is impaired, provision is made to reduce the carrying amount of the related assets to their estimated recoverable amount. Impairment losses are allocated firstly against goodwill, and secondly on a pro rata basis against intangible and other assets.

Operating lease agreements

Payments made under operating leases are charged to profit or loss on a straight line basis over the lease term. Lease incentives are spread over the term of the lease.

1 Summary of significant accounting policies (continued)

Inventories

Components held for manufacture of vehicle tracking units and units not yet deployed to customers are classified as inventory. Inventories are stated at cost less provision for obsolete, slow moving or defective items. Cost is based on the cost of purchase on a first in first out basis. Provision against inventories is recognised as an expense in the period in which the write-down or loss occurs.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the Statement of Financial Position date.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets and are recognised to the extent that it is regarded as more likely than not that they will be recovered from future trading profits.

Deferred tax liabilities are provided in full, with no discounting. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the Statement of Financial Position date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in profit or loss, other comprehensive income or equity as appropriate.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial assets

The new Standard for financial instruments, IFRS 9, replaces IAS 39 'financial Instruments: Recognition and Measurement' and makes changes to the classification and measurement of financial assets and introduces an 'expected credit loss' model for impairment of financial assets.

The Group has reviewed its business model for its financial assets, which comprise only basic loans and receivables, and concluded that they are held for collecting contractual associated cash flows. Therefore, under the new guidance, loans and receivables, are initially recognised at fair value and will subsequently be measured at amortised cost.

As required by IFRS 9, the Group will apply the impairment requirements and recognise a loss allowance for expected credit losses on its financial assets. At each reporting date, it will always measure the loss allowance at an amount equal to the lifetime expected credit losses.

The Group will recognise in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with IFRS 9.

1 Summary of significant accounting policies (continued)

Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities are recorded initially at fair value and subsequently at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the profit and loss.

A financial liability is derecognised when the obligation is extinguished.

Equity

Equity comprises the following:

- "Called Up Share capital" represents the nominal value of equity shares
- "Share premium account" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue
- "Capital redemption reserve" represents the amount by which the Company's issued share capital is diminished when shares are redeemed or purchased wholly out of the Company's profits
- "Equity reserve" is used to reflect the expenses associated with granting share options to employees and the issue of warrants
- "Translation reserve" represents the exchange difference arising on the consolidation of foreign operations.
- "Retained earnings" represents retained profits

Foreign currencies

The Parent Company's functional currency is Sterling; the French branch's is Euros, with its results translated for inclusion in Quartix Limited's Sterling accounts. Quartix Inc has a functional currency of US Dollars.

The consolidated financial statements are presented in Sterling, which is the Group's presentation currency. Transactions in foreign currencies are translated into the respective currencies of Group companies at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the Statement of Financial Position date. Foreign exchange differences arising on translation of monetary assets and liabilities are recognised in the Consolidated Statement of Comprehensive Income. Non-monetary assets and liabilities that are measured at historical costs in a foreign currency are translated using the exchange rates at the dates for the transactions.

Income and expenses for all the Group entities that have a functional currency other than Sterling are translated at the average rate prevailing in the month of the transaction. The assets and liabilities are retranslated at the closing exchange rate at the reporting date.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognised in the translation reserve, as a separate component of equity.

Employee benefits

The only pension provision is participation in the UK Government's NEST pension scheme, which is a defined contribution scheme. Contributions to defined contribution pension schemes are recognised as an employee benefit expense within personnel expenses in the income statement, as incurred. Other employee benefits including holiday pay, company sick pay and a range of tailored incentive schemes, some of which include the grant of share options, are recognised in the period that related employee services are received.

1 Summary of significant accounting policies (continued)

Dividends
Dividends attributable to the equity holders of the Company approved for payment during the year are recognised directly in equity.

Employee benefits: share based payments
The Group operates a number of employee share schemes under which it makes equity-settled share-based payments to certain employees.

Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is assessed at the grant date, using the Black-Scholes method, and excludes the impact of non-market vesting conditions.

The expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

During the year ended 3 December 2018 share-based payment arrangements were modified as explained in note 20.

2 Key judgements and estimates

The Group make estimates and assumptions regarding the future. Actual results may differ from these estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are addressed below.

Key judgement: capitalisation of development costs
The point at which development costs meet the criteria for capitalisation is critically dependent on management's judgment of the point at which development projects become technically and commercially feasible. No development expenditure was capitalised in the year ended 31 December 2018. The research and development expenditure primarily related to the on-going research work on the Group's existing vehicle telematics services to ensure that the functionality is maintained. The research work undertaken may successfully come to fruition in the development of a marketable service or technology but this development work cannot be identified or separated from the research work and therefore the entire expenditure has been expensed in the year. See the Strategic Report on page 9 for further information about the Group's approach to research and development

Key judgement: timing of revenue and cost recognition
The adoption of IFRS 15, see note 1, required the Group to identify its performance obligations, determine the transaction price and allocate this to the performance obligations and to recognise revenue when/as performance obligations are satisfied, which are the subject of key judgements. The Group's judgement is that supplying telematics units, installing telematics units and the provision of data services are a single performance obligation, under contracts with customers, impacts the timing of revenue recognition.

The performance obligation is satisfied over time, since the Group has the obligation to deliver the data services for the contract term. Customers simultaneously receive and consume the benefits of the tracking services as Quartix delivers its performance obligation.

Where customer contracts are structured so that tracking units and installations are separately identified, the Group recognises this revenue as part of the single performance obligation of delivering tracking services, and assumes a typical contract period of 12 months.

2 Key Judgments and estimates (continued)

Key judgement: timing of revenue and cost recognition (continued)
As described in note 1, it is the Group's judgement that, once installed, the hard-wired units relate to both unsatisfied performance obligations and to satisfied performance obligations (or partially satisfied performance obligations). In the case of 'self-install' units, which customers are able to physically install into their vehicles themselves, the Group's judgement is that it still has obligations in relation to the technical set-up of these units (including connectivity). Self-install units currently form a small part of the Group's sales; however, the Group will keep this judgement under review.

Whilst not all of the commissions that the Group pays are wholly directed at obtaining specific contracts, it is possible to separate out the commissions which are directed in this way. The large majority of contracts which the Group enters into with customers are 12 months in length and the Group therefore chooses to use the practical expedient under IFRS15 to expense these commissions as an expense when incurred. This policy will, however, be kept under review to see if it needs to be updated if the nature of the Group's sales changes.

These assessments are judgements and, were these costs to be capitalised, the impact on profit or loss could be material and would likely be determined by the volume of contracts entered into in the year in question (with growth in the volume of relevant contracts against the prior year being associated with a credit to profit or loss and vice versa).

Key estimate: impairment testing of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated (Quartix Limited). Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 11.

3 Revenue

The Group's revenue disaggregated by customer base is as follows:

	2018 £'000	Restated 2017 £'000
By customer base		
Fleet	**18,751**	17,079
Insurance	**6,955**	7,438
	25,706	24,517

During 2018 revenue of £5.5m (2017: £7.0m) was derived from one insurance customer.

3 Revenue (continued)

The Group's revenue disaggregated by primary geographical markets is as follows:

	2018 £'000	Restated 2017 £'000
Geographical analysis by destination		
United Kingdom	**21,709**	21,427
France	**2,471**	1,917
Republic of Ireland	**13**	10
United States of America	**1,513**	1,163
	25,706	24,517

There are no material non-current assets based outside the UK.

The Group's revenue disaggregated by pattern of revenue recognition is as follows:

	2018 £'000	Restated 2017 £'000
Recurring revenue	**24,630**	23,499
One off revenue	**1,076**	1,018
	25,706	24,517

Goods and services transferred over time represent 96% of total revenue (2017: 96%).

For 2018, revenue includes £5,871,000 (2017: £5,713,000) included in the contract liability balance at the beginning of the period. Changes to the Group's contract liabilities (i.e. deferred revenue) are attributable solely to the satisfaction of performance obligations.

The aggregated amounts of transaction prices relating to performance obligations from existing contacts that are unsatisfied or partially unsatisfied as at 31 December 2018 are all expected to be recognised in 2019.

4 Segmental analysis

The Group has concluded that it operates only one operating segment as defined by IFRS 8, being the provision and marketing of vehicle telematics services. The information used by the Group's chief operating decision makers to make decisions about the allocation of resources and assessing performance is presented on a consolidated Group basis. All revenue, costs, assets and liabilities relate to the single activity; and accordingly no segmental analysis is presented.

5 Profit for the year before taxation

The profit for the year for the Group is stated after charging:

	2018 £'000	Restated 2017 £'000
Research and development expenses	**1,131**	1,099
Rentals under operating leases:		
Other operating leases	**12**	14
Land and buildings	**266**	175
Depreciation on property, plant and equipment, owned	**185**	186
Share-based payment expense	**108**	420
Foreign exchange (gains)/losses	**(121)**	200
Expected credit loss charge	**28**	42
Audit services:		
Fees paid to Company auditor for the audit of the Company and consolidated financial statements	**22**	21
The audit of the Company's subsidiary pursuant to legislation	**31**	24
Other services	**4**	3

Earnings before interest, tax, depreciation and amortisation (EBITDA):

	2018 £'000	2017 £'000
Operating profit	**8,041**	6,622
Depreciation	**185**	186
EBITDA	**8,226**	6,808
Share-based payment expense	**108**	420
Adjusted EBITDA	**8,334**	7,228

6 Employee remuneration

Expenses recognised for employee benefits is analysed below for the Group.

Staff costs, including Directors, during the year were as follows:

	2018 £'000	2017 £'000
Wages and salaries	**4,403**	4,060
Social security costs	**454**	413
Contributions to defined contribution pension plan	**57**	28
Share-based payment	**108**	420
	5,022	4,921

The average number of employees, including all Directors, during the year was as follows:

	2018	2017
Administration	**19**	19
Operations	**30**	31
Sales	**38**	36
Customer service	**18**	14
Research and development	**31**	28
	136	128

7 Key management remuneration and directors' remuneration

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any Directors (whether Executive or otherwise) of the entity. For 2018, the Group identified ten such individuals: three Executive Directors, two Non-Executive Directors, and five members of Senior Management, being managers on the Operations Board of Quartix Limited. In 2017, the Group identified twelve such individuals: three Executive Directors, two Non-Executive Directors, and seven members of Senior Management.

	2018	2017
	£'000	£'000
Wages and salaries	**811**	765
Social security costs	**100**	91
Contributions to defined contribution pension plan	**9**	4
Share-based payment	**(13)**	279
Total employee benefits	**907**	1,139

Key management had 567,184 share options outstanding at 31 December 2018 (2017: 1,179,311). Key management held 20,861,208 shares at 31 December 2018 (2017: 23,469,281) on which dividends were paid in the year.

Details of Directors' remuneration and the highest paid director is disclosed on page 27.

The Group introduced the NEST pension arrangements in 2015 for all employees. Three directors joined the scheme. No Director was a member of any other pension scheme or other post-employment benefit to which the Group contributed in either the current or the prior years. There were no termination payments and no bonuses for Directors. At 31 December 2018 the directors held 280,000 share options (2017: 586,956) and no share options were exercised in the year.

8 Finance income receivable

	2018	2017
	£'000	£'000
Bank interest	**29**	17

9 Tax expense

		Restated
	2018	2017
Analysis of tax charge in the year	**£'000**	£'000
Current tax		
UK corporation tax charge on profit for the year	**556**	823
Adjustments in respect of prior periods	**9**	41
Total corporation tax	**565**	864
Deferred tax		
Origination and reversal of temporary differences	**652**	(71)
Adjustments in respect of prior periods	**(7)**	-
Total deferred tax	**645**	(71)
Tax on profit of ordinary activities	**1,210**	793

The relationship between the expected tax expense based on an effective tax rate of the Group of 19.00% (2017: 19.25%), being the UK rate of corporation tax for the year, and the tax expense actually recognised in profit or loss can be reconciled as follows:

9 Tax expense (continued)

	2018 £'000	Restated 2017 £'000
Result for the year before taxation	**8,070**	6,639
Tax rate (%)	**19.00**	19.25
Expected tax expense	**1,533**	1,278
Adjustments to tax charge in respect of prior periods	**2**	41
Expenses not deductible for tax purposes	**5**	1
Losses in the USA not provided	**108**	62
Research and development tax credit	**(225)**	(255)
Patent box credit	**(173)**	(227)
Remeasurement of deferred tax	**56**	(60)
Tax adjustment on exercise of options	**(96)**	(47)
Tax on profit on ordinary activities	**1,210**	793

Effective rate of tax	15.0%	11.9%
Effective rate of tax ignoring adjustments in respect of prior years'	15.0%	11.3%

10 Earnings per share and dividends

Earnings per share

The calculation of the basic earnings per share is based on the profits attributable to the shareholders of Quartix Holdings plc divided by the weighted average number of shares in issue during the year. All earnings per share calculations relate to continuing operations of the Group.

	Profits attributable to shareholders £'000	Weighted average number of shares	Basic profit per share amount in pence	Fully diluted weighted average number of shares	Diluted profit per share amount in pence
Earnings per ordinary share					
Year ended 31 December 2018	**6,860**	**47,713,566**	**14.38**	**48,354,756**	**14.19**
Year ended 31 December 2017 restated	5,846	47,459,712	12.32	47,667,194	12.26

For diluted earnings per share, the weighted average number of ordinary shares is adjusted to assume the conversion of all dilutive potential ordinary shares. Dilutive potential ordinary shares are those share options where the exercise price is less than the average market price of the Company's ordinary shares during that year.

Dividends

During the year ended 31 December 2018, the Group paid interim dividends of £1.1m (2017: £1.1m), equivalent to 2.4p per ordinary share (2017: 2.4p).

The Board is recommending total dividends of £4.8m (2017: £5.3m) comprising a final ordinary dividend of 3.8p per share, together with a supplementary dividend of 6.2p per share, giving a final pay out of 10.0p per share and a total dividend for the year of 12.4p per share. As the distribution of dividends required approval at the Annual General Meeting, no liability in this respect is recognised in the 2018 Group consolidated financial statements.

11 Goodwill and other intangible assets

Goodwill

	Goodwill on consolidation £'000
Cost and net book value	
At 1 January and 31 December 2017 and 2018	**14,029**

Goodwill arose on the consolidation of the Group following the acquisition of Quartix Limited in 2008.

Goodwill is recognised as an asset and assessed for impairment annually or where there is indication of impairment. Any impairment is recognised immediately in profit or loss (see note 2).

The Group considers its subsidiary Quartix Limited to be the sole cash-generating unit (CGU) for the assessment of goodwill and as such, it is reviewed annually for impairment. The Group has determined its recoverable amount based on value in use calculations. The value in use was derived from discounted management cash flow forecasts for the business, using the budgets and strategic plans based on past performance and expectations for the market development of the CGU, incorporating an appropriate business risk. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period based on industry sector forecasts.

These budgets and strategic plans cover a four-year period. The growth rate in years one and two were based on detailed management expectations. The growth rate used for the third and fourth year is 2% which is in line with the long-term GDP forecasts. The discount rate used is 8.45% based on the Group's weighted average cost of capital. Sensitivity analysis is carried out on all budgets, strategic plans and discount rates used in the calculations.

Management's key assumptions are based on past experience and the current trading performance of Quartix Limited. These value in use calculations have not identified any requirement for impairment of the Goodwill stated above. Management is not aware of any probable changes that would necessitate changes in key estimates that indicate any impairment sensitivity.

12 Property, plant and equipment

	Leasehold improvements £'000	Tools and equipment £'000	Office equipment £'000	Total £'000
Cost:				
At 1 January 2017	17	12	857	886
Additions	-	-	67	67
Foreign exchange	-	-	(12)	(12)
At 31 December 2017	17	12	912	941
Additions	24	-	358	382
Foreign exchange	-	-	8	8
At 31 December 2018	41	12	1,278	1,331

12 Property, plant and equipment (continued)

	Leasehold improvements £'000	Tools and equipment £'000	Office equipment £'000	Total £'000
Depreciation:				
At 1 January 2017	6	12	508	526
Provided in the year	3	-	183	186
Foreign exchange	-	-	(5)	(5)
At 31 December 2017	9	12	686	707
Provided in the year	3	-	182	185
Foreign exchange	1	-	5	6
At 31 December 2018	13	12	873	898
Net book amount:				
At 31 December 2018	**28**	**-**	**405**	**433**
At 31 December 2017	8	-	226	234
At 1 January 2017	11	-	349	360

13 Inventories

Components held for manufacture of vehicle tracking units and units not yet deployed to customers:

	2018 £'000	2017 £'000
Raw materials	**476**	406
Work in progress	**103**	60
Finished goods and goods for resale	**192**	237
	771	703

Included in the analysis above are impairment provisions against inventory amounting to £61,000 (2017: £77,000). The cost of vehicle tracking units are recognised as an expense and included in "cost of sales" amounted to £3.0m (2017: £3.1m).

14 Trade and other receivables

	2018 £'000	2017 £,000
Trade receivables	**2,583**	2,647
Other receivables	**38**	27
Prepayments and accrued income	**316**	335
	2,937	3,009

All the amounts are due within in year. Trade receivables are measured initially at fair value and subsequently at amortised cost. At each period end, there is an assessment of the expected credit loss in accordance with IFRS 9 with any increase or reduction in the credit loss provision charged or released to administration costs in the statement of comprehensive income. IFRS 9 was adopted as at 1 January 2018 and as permitted the prior year comparatives have not been restated.

14 Trade and other receivables (continued)

The loss allowance for expected credit losses has been recorded as follows.

	2018 £'000	2017 £'000
Loss allowance at 1 January	**88**	47
Increase in loss allowance	**28**	42
Foreign exchange	**2**	(1)
Loss allowance at 31 December	**118**	88

As explained in note 26, the Group's trade receivables arise from transactions that do not contain a significant financing component, therefore the loss allowance is always measure at an amount equal to lifetime expected credit losses.

In addition, some of the unimpaired trade receivables are past due as at the reporting date. The age of financial assets past due but not impaired is as follows:

	2018 £'000	2017 £'000
Not more than 1 month	**300**	188
More than one month but not more than 3 months	**28**	54
More than 3 months but not more than 6 months	**-**	-
	328	242

15 Cash and cash equivalents

Cash and cash equivalents include the following components:

	2018 £'000	2017 £'000
Cash at bank and in hand	**6,779**	7,312

Quartix Limited uses Barclay's Business Premium account to aggregate Sterling instant access balances and earn interest, which is currently at 0.65%. Since September 2016, the Group has placed deposits with Investec Bank plc on 95 day or 32 day notices with interest currently at 0.85% and 0.55% respectively. At 31 December 2018, Investec deposits were £1.5m.

16 Trade and other payables

Amounts falling due within one year:

	2018 £'000	2017 £'000
Trade payables	**1,252**	1,385
Social security and other taxes	**594**	724
Other payables	**101**	153
Accruals	**867**	591
	2,814	2,853

17 Contract liabilities

	2018 £'000	Restated 2017 £'000
Deferred insurance tracking data services income	**2,038**	3,487
Deferred fleet tracking data services income	**2,617**	2,485
	4,655	5,972

Deferred tracking data services income represents customer payments received in advance of performance (contract liabilities) that are expected to be recognised as revenue in 2019, as described in note 1

- Under insurance contracts, the customer commits to purchase data services for 12 months. Quartix raises a single invoice upon installation and recognises revenue over 12 months on a straight-line basis, since the customer benefits from the Group's services evenly throughout the contract term and receives the benefit of the services as they are made available.
- Fleet customers enter into contracts typically with a commitment to purchase data services for 12 months and are generally invoiced quarterly in advance and recognises revenue over the period covered by the invoice, as the performance obligations are satisfied.

The amounts recognised as contract liability will generally be utilised within the next reporting period.

Changes to the Group's contract liabilities (i.e. deferred revenue) are attributable solely to the satisfaction of performance obligations. The reduction in contract liabilities was due to the release of deferred contract revenue in the year arising from the reduction in the number of new insurance installations.

	2018 £'000	Restated 2017 £'000
Contract liabilities at 1 January	**5,972**	5,864
Contract liabilities released to revenue in the period	**(5,871)**	(5,713)
Contract revenue deferred in the period, net of releases in the period	**4,554**	5,820
Contract liabilities at 31 December	**4,655**	5,972

18 Deferred tax

Deferred tax assets recognised by the Group at 31 December 2018 and 31 December 2017 are as follows:

Provision for deferred tax	**2018 £'000**	2017 £'000
Accelerated Capital Allowances	(38)	(25)
Short term temporary differences	21	626
Equity settled share options	26	167
	9	768

	2018 £'000	2017 £'000
(Credit)/charge to profit and loss		
Accelerated Capital Allowances	**13**	(17)
Short term temporary differences	**605**	5
Equity settled share options	**27**	(59)
	645	(71)

There are unprovided tax losses related to the USA business of $917,000 (2017: $1,093,000).

19 Equity

	Number of ordinary shares of £0.01 each	Share capital £'000	Share premium £'000
Allotted, called up and fully paid			
At 1 January 2018	47,568,354	476	4,869
Shares issued	278,206	2	327
At 31 December 2018	**47,846,560**	**478**	**5,196**

All the shares issued in the year to 31 December 2018 related to the exercise of share options.

20 Share-based payment

The Company has share option schemes for certain employees. Share options are exercisable at prices determined at the date of grant. The vesting periods for the share options range between 12 and 63 months. Options are forfeited if the employee leaves the Company before the options vest.

In December 2018, share based payment arrangements were modified for a number of option agreements, previously granted where the exercise price was above the share price. The total number cancelled was 620,000, of which 280,000 related to Daniel Mendis. The original exercise prices ranged from £3.375 to £3.80. With the exception of 187,408 for Daniel Mendis, which were reissued at the original exercise price of £3.60, replacement options of 465,184 were issued at an exercise price of £2.70. All replacement option agreements included performance criteria, linked to both performance and service conditions.

The incremental fair value granted, as a result of the modifications, was £101,129. This was measured by comparing the fair value of the instrument immediately before and immediately after the modification using the Black-Scholes method, since the performance conditions did not relate to market conditions.

This incremental fair value will be included in the measurement of the amount recognised for services received over the period from the modification date until the date when the modified equity instruments vest. The amount based on the grant date fair value of the original equity instruments continues to be recognised over the remainder of the original vesting period.

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Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

		2018		**2017**
	Weighted average exercise price per share in pence	**Options number**	**Weighted average exercise price per share in pence**	**Options number**
Outstanding at 1 January	**269.3**	**1,607,651**	170.2	916,812
Granted	**287.6**	**1,270,534**	308.6	1,024,251
Cancelled	**355.6**	**(620,000)**	-	-
Lapsed	**292.2**	**(614,425)**	199.5	(112,012)
Exercised	**118.4**	**(278,206)**	76.4	(221,400)
Outstanding at 31 December	**267.6**	**1,365,554**	269.3	1,607,651
Exercisable at 31 December	**178.9**	**148,000**	167.1	244,355

The weighted average fair value of options issued during the year ended 31 December 2018 was 38.25p (2017: 71.70p). Included in the options granted in 2018 were 1,062,776 (2017: 10,355) granted to staff with performance conditions relating to the Group for each of the three years ended 31 December 2021 and subsequent service conditions. The remaining options granted during the year have only service conditions.

20 Share based payments (continued)

The weighted average share price at the date of exercise of options during the year ended 31 December 2018 was 338.16p (2017: 375.16p).

At 31 December 2018 Quartix Holdings plc had the following outstanding options and exercise prices:

2018

Period when exercisable	Expiry dates	Average exercise price per share in pence	Options number	Weighted average remaining contractual life in months
Starting from November 2014	1 November 2019	44.0	80,000	11
Starting from October 2017	28 October 2023	337.5	102,000	58
March 2019	06 December 2022	1.0	13,020	47
Starting from March 2019	31 March 2025	360.0	187,408	75
Starting from March 2020	31 March 2024	270.0	870,184	63
Starting from March 2020	31 March 2026	270.0	92,592	87
March 2020	06 December 2023	1.0	20,350	59
		267.6	**1,365,554**	**58**

2017

Period when exercisable	Expiry dates	Average exercise price per share in pence	Options number	Weighted average remaining contractual life in months
Starting from November 2014	1 November 2019	44.0	260,000	23
Starting from October 2017	28 October 2023	337.5	312,000	70
March 2018	06 December 2021	1.0	11,400	47
March 2018	31 December 2018	1.0	10,355	12
Starting from March 2018	31 March 2024	287.5	586,956	75
Starting from April 2018	13 April 2024	357.5	100,000	75
Starting from July 2018	27 July 2024	360.0	30,000	79
Starting from March 2019	31 March 2025	360.0	280,000	87
March 2019	06 December 2022	1.0	16,940	59
		269.3	**1,607,651**	**67**

The fair value of share based payments have been calculated using the Black-Scholes option pricing model. Expected volatility was determined based on the historic volatility of the Group's share price. The expected life is the expected period from grant to exercise based on management's best estimate. The risk free return is based on UK Government gilt yields at the time of the grant.

20 Share based payments (continued)

The following assumptions were used in the model for options granted during the year ended 31 December 2018:

	2018					
Number granted	**100,000**	**187,408**	**277,776**	**280,000**	**405,000**	**20,350**
Grant date	**22 Jun**	**5 Dec**	**5 Dec**	**6 Dec**	**7 Dec**	**6 Dec**
Share price at grant date (pence)	**380.0**	**360.0**	**270.0**	**270.0**	**270.0**	**270.0**
Exercise price (pence)	**380.0**	**360.0**	**270.0**	**270.0**	**270.0**	**1.0**
Fair value per option (pence)	**34.4**	**61.0**	**29.7**	**29.7**	**29.7**	**250.1**
Expected life in years	**3.0**	**5.25**	**3.25**	**3.25**	**3.25**	**1.25**
Expected volatility (%)	**18.0**	**28.5**	**27.1**	**27.1**	**27.1**	**27.1**
Risk-free interest rate (%)	**0.76**	**0.70**	**0.77**	**0.77**	**0.77**	**0.74**
Dividend yield (%)	**2.8**	**3.5**	**5.8**	**5.8**	**5.8**	**5.8**

2017:

	2017						
Number granted	5,200	5,155	586,956	100,000	30,000	280,000	16,940
Grant date	1 Jan	2 Feb	19 Jan	13 Apr	27 Jul	1 Dec	6 Dec
Share price at grant date (pence)	340.0	293.0	287.5	357.5	360.0	360.0	360.0
Exercise price (pence)	1.0	1.0	287.5	357.5	360.0	360.0	1.0
Fair value per option (pence)	329.3	283.1	65.9	67.7	64.2	61.0	343.6
Expected life in years	1.0	1.0	5.17	3.0	3.0	5.25	1.25
Expected volatility (%)	34.3	34.3	34.5	34.8	34.3	28.5	28.5
Risk-free interest rate (%)	**0.19**	**0.19**	**0.67**	**0.19**	**0.31**	**0.70**	**0.44**
Dividend yield (%)	**2.9**	**2.9**	**2.9**	**2.9**	**3.5**	**3.5**	**3.5**

21 Notes to the cash flow statement

Cash flow adjustments and changes in working capital

	Notes	2018 £'000	2017 £'000
Profit before tax		**8,070**	6,639
Foreign exchange		**(153)**	151
Depreciation	12	**185**	186
Interest income	8	**(29)**	(17)
Share based payment expense	5	**108**	420
Operating cash flow before movement in working capital		**8,181**	7,379
Decrease/(increase) in trade and other receivables		**83**	(424)
(Increase) in inventories		**(67)**	(24)
(Decrease) in trade and other payables		**(42)**	(19)
(Decrease)/increase in contract liabilities		**(1,330)**	102
Cash generated from operations		**6,825**	7,014

22 Leases

The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Land & buildings		Other	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
No later than one year	**200**	154	**10**	12
Later than one year and no later than four years	**267**	154	**3**	12
Later than five years	**38**	-	**-**	-
	505	308	**13**	24

Lease payments recognised as an expense during the year amount to £278,000 (2017: £189,000).

23 Related party transactions and controlling related party

The Group's related parties comprise its Board of Directors and its key management (see note 7). There were no related party transactions with Directors to disclose other than dividends received based on shareholdings disclosed in the Directors' Remuneration Report on page 27 and note 7.

The Directors consider the Board and shareholding structure to mean there is no directly identifiable controlling party.

24 Purchase commitments

Quartix Limited has signed agreements with suppliers which commit the Group to purchase inventory to the value of £521,000 (2017: £455,000). In August 2017, the Group entered into an agreement for the provision of vehicle telematics services which included a contractual obligation to pay a minimum of £40,000 per month, until 31 March 2019. There were no other financial commitments or contingent liabilities as at 31 December 2018 or 31 December 2017.

25 Capital commitments

The Group had capital commitments of nil at 31 December 2018 (2017: 42,000).

26 Risk management objectives and policies

Financial instruments

The Group uses various financial instruments; these include cash deposits and bank loans and various items such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations and manage working capital.

The main risks arising from the Group's financial instruments are credit risk and currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the Statement of Financial Position date, as summarised below:

	2018	2017
	£'000	£'000
Loans and receivables		
Cash and cash equivalents	**6,779**	7,312
Trade receivables and other receivables	**2,621**	2,674
	9,400	9,986

The Group's principal financial assets are cash deposits and trade receivables. Risks associated with cash deposits are limited as the banks used have high credit ratings assigned by international credit rating agencies.

The principal credit risk relates to trade receivables and is mitigated, where possible, by third party credit clearance for new customers and collection by direct debit, or similar. The Group has one large customer whose debts have been as much as £0.7m and the credit risk on this balance is carefully monitored. The Group has established credit control procedures to undertake various tasks at different stages as invoices move further from their issue date. At 45 days past due date, the credit risk is believed to have increased substantially and customers are included in the loss allowance assessment.

The Group uses the practical expedient in the calculation of the expected credit losses on all its trade receivables using a provision matrix, to estimate the lifetime expected credit losses, with fixed provision rates, based on its historical credit loss experience adjusted where possible for current observable data. The Group uses such data to make reasonable forward looking estimates of recoverability.

The Group continues to work with customers to recover trade receivables and may take legal action or use third-party collection specialists where necessary. Only after these steps have been completed and there is no reasonable expectation of recovery, would the receivable be written off.

Currency risk

The Group is exposed to transaction foreign exchange risk as a consequence of procuring tracking unit components in both euros and dollars. The risk with the Euro has been mitigated by trading in France which generates enough Euros to cover the Group's needs. Whilst the Group also trades in the US, in 2018, the Group purchased about $2.8m, primarily to purchase components for the vehicle tracking units (2017: $3.5m).

Transaction exposures, including those associated with forecast transactions, are managed through the use of bank accounts held in foreign currencies.

26 Risk management objectives and policies (continued)

Currency risk (continued)

It is estimated that a 5% strengthening of Pound Sterling to the US dollar would have reduced purchase costs by £100,000 and vice versa (2017: £126,000). (This is assuming that Dollar denominated prices do not adjust for currency movements.)

It is estimated that a 5% strengthening of Pound Sterling to the Euro would have reduced net profit by £58,000 and vice versa (2017: £54,000).

The Group's financial instruments dominated in currencies were:

	2018		2017	
	£'000	**£'000**	£'000	£'000
	US$	**€**	US$	€
Cash and cash equivalents	**291**	**314**	260	207
Trade receivables	**-**	**314**	-	224
Trade payables	**(207)**	**(216)**	(189)	(141)
	84	**412**	71	290

As set out in the accounting policies (note 1), the assets and liabilities of Group entities that have a functional currency other than Sterling are translated at the closing exchange rate at the reporting date. The US dollar exchange rate fell by 5.5% from 31 December 2017 to 31 December 2018 (2017: rose by 9%). The total translation reserve movement for the year reported in the Consolidated Statement of Changes in Equity was a charge of £158,000 (2017: credit £201,000). The majority of this movement related to the retranslation of Quartix Inc's opening net liabilities as at 1 January 2018.

Quartix Inc's net liabilities mainly relate to amounts owed to other Group entities. The foreign exchange differences arising on translation of these monetary liabilities are recognised in the Consolidated Income Statement and was the main reason for the foreign exchange gain in 2018 (see note 5). The retranslation of the amounts owed to Group entities by Quartix Inc at 31 December 2018 amounted to £136,000 (2017: £(175,000)).

It is estimated that a 5% weakening of Pound Sterling to the US dollar would give an exchange gain of around £160,000 from the retranslation of amounts owed by Quartix Inc and vice versa (2017: £122,000).

Interest rate risk

The Group has no debt so it is not exposed to fluctuations in interest rates.

Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs. Cash flow is forecast and monitored as are working capital requirements. The Group generates funds from operational activities in excess of its operational requirements and has substantial cash balances available for its current investment activities. Consequently, liquidity is not seen as a key risk.

27 Summary of financial assets and liabilities by category

The carrying amounts of the assets and liabilities as recognised at the Statement of Financial Position date of the years under review may also be categorised as follows:

	2018	2017
	£'000	£'000
Loans and receivables		
Trade and other receivables	**2,621**	2,674
Cash and cash equivalents	**6,779**	7,312
	9,400	9,986
Financial liabilities measured at amortised cost		
Trade and other payables	**2,119**	1,976

28 Capital management policies and procedures

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders, by balancing its trading performance with continuing investment in research and development.

The Group monitors capital on the basis of the carrying amount of equity less cash and cash equivalents as presented on the face of the Statement of Financial Position.

The Group makes adjustments to its capital in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets. Capital for the reporting years under review is summarised as follows:

	2018	Restated 2017
	£'000	£'000
Capital		
Total equity	**17,390**	16,807
Less cash and cash equivalents	**(6,779)**	(7,312)
	10,611	9,495
Overall financing		
Total equity	**17,390**	16,807
Capital-to-overall financing ratio (%)	**61**	56

29 Subsidiaries

As at the 31 December 2018 the subsidiaries of the Group were:

Subsidiary	**Quartix Ltd**	**Quartix inc**
Country of registration	England & Wales	USA
Registered office	Chapel Offices, Park Street, Newtown Powys SY16 1EE	901 2nd Street, Springfield, Sangamon IL 62704-7909
Class of share capital held	Ordinary shares	Common shares
Proportion held by the Company	100%	100%
Nature of the business	Vehicle Tracking	Vehicle Tracking

30 Explanation of transition to IFRS 15 Revenue from Contracts with Customers

As highlighted in note 1, Significant accounting policies under revenue recognition, the Group has adopted fully retrospective application of IFRS 15. The Group has not applied any of the practical expedients available for companies selecting fully retrospective application. Consequently, the comparative figures for the year ended 31 December 2017 in these financial statements have been restated.

As described in note 1, under IAS 18 the Group recognised revenue from hardware and installation services upon installation of a unit, or despatch if self-installed by the customer. Following the evaluation for IFRS 15, the Group's activities of supplying telematics units and installing telematics units are supplied as part of a contract with the customer for the provision of its telematics services and will be considered as one single performance obligation. Consequently, the Group will no longer recognise revenue separately for these goods and services; rather, it will recognise this revenue together as the provision of vehicle telematics services.

30 Explanation of transition to IFRS 15 Revenue from Contracts with Customers (continued)

The principal impact of this change relates to the timing of revenue for units purchased by insurance customers, with the total contractual revenue sum being recognised over the contractual period for the provision of data services, which is one year.

As at 1 January 2017, the restatement of the Group's net assets was a reduction of £2,669,000 to £15,660,000 from the inclusion of additional contract liabilities of £3,293,000 under IFRS 15, being previously recognised revenue now being recognised over the contractual period for the provision of data services, net of a deferred tax asset of £624,000.

The impact of adoption of IFRS 15 on the financial statements:

A Consolidated Statement of Financial Position

1 January 2017	As previously reported	Adjustments	As Restated
	£'000	£000	£'000
Deferred tax assets	141	624	765
Other	23,909	-	23,909
Total assets	24,050	624	24,674
Contract liabilities	(2,591)	(3,293)	(5,884)
Other	(3,130)	-	(3,130)
Total liabilities	(5,721)	(3,293)	(9,014)
Retained earnings	8,513	(2,669)	5,844
Other	9,816	-	9,816
Total Equity	18,329	(2,669)	15,660

31 December 2017	As previously reported	Adjustments	As Restated
	£'000	£000	£'000
Deferred tax assets	149	619	768
Other	25,287	-	25,287
Total assets	25,436	619	26,055
Contract liabilities	(2,708)	(3,264)	(5,972)
Other	(3,276)	-	(3,276)
Total liabilities	(5,984)	(3,264)	(9,248)
Retained earnings	9,018	(2,645)	6,373
Other	10,434	-	10,434
Total Equity	19,452	(2,645)	16,807

30 Explanation of transition to IFRS 15 Revenue from Contracts with Customers (continued)

The impact of adoption of IFRS 15 on the financial statements (continued):

B Consolidated Statement of Comprehensive Income

For the year ended 1 December 2017	As previously reported £'000	Adjustments £000	As Restated £'000
Revenue	24,488	29	24,517
Other	(17,878)	-	(17,878)
Income tax expense	(788)	(5)	(793)
Net profit	5,822	24	5,846
Total Comprehensive income	6,023	24	6,047
Earnings per ordinary share (pence)	12.27	0.05	12.32
Diluted earnings per ordinary share (pence)	12.21	0.05	12.26

C Consolidated Statement of Cash Flows

For the year ended 1 December 2017	As previously reported £'000	Adjustments £000	As Restated £'000
Profit	5,822	24	5,846
Adjusted for:			
- Tax expense	788	5	793
Profit before tax	6,610	29	6,639
Changes in contract liabilities	131	(29)	102
Other	273	-	273
Cash generated from operations	7,014	-	7,014

31 Explanation of transition to IFRS 9 Financial Instruments

As highlighted in note 1, Significant accounting policies under Financial Assets, the Group has adopted IFRS 9 and applied it as at 1 January 2018. It has not, as permitted by IFRS 9, restated prior periods and has not made a prior year adjustment in respect of the carrying value of financial assets at 1 January 2018 since the impact was not significant.

The Group has reviewed its business model for its financial assets, which comprise only basic loans and receivables, and concluded that they are held for collecting contractual associated cash flows. Therefore, under the new guidance, loans and receivables, are initially recognised at fair value and will subsequently be measured at amortised cost.

It's financial assets are trade receivables which do not have a significant financing component, therefore it will adopt the simplified approach of measuring lifetime expected credit losses. The Group will also adopt the practical expedient for the calculation of expected credit losses for trade receivables using a provision matrix.

31 Explanation of transition to IFRS 9 Financial Instruments (continued)

At each reporting date, the Group will measure the loss allowance at an amount equal to the lifetime expected credit losses.

The Group will recognise in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with IFRS 9.

Parent Company Statement of Financial Position

Company registration number 06395159

	Notes	2018 £'000	2017 £'000
Fixed assets			
Investments	4	**19,263**	19,155
Current assets			
Debtors	5	**1,450**	3,985
Current tax asset		**26**	54
Cash at bank and in hand		**165**	426
Total current assets		**1,641**	4,465
Creditors – amounts falling due within one year	6	**(3,437)**	(38)
Net current assets		**(1,796)**	4,427
Total assets less current liabilities		**17,467**	23,582
Net assets		**17,467**	23,582
Capital and reserves			
Called up share capital	7	**478**	476
Share premium account		**5,196**	4,869
Equity reserve		**426**	451
Capital redemption reserve		**4,663**	4,663
Retained earnings		**6,704**	13,123
Total equity attributable to equity shareholders of Quartix Holdings plc		**17,467**	23,582

Profit for the year and total comprehensive income attributable to the equity shareholders of Quartix Holdings plc was £110,000 (2017: £6,238,000)

Approved by the Board of Directors, authorised for issue and signed on behalf of the Board on 22 February 2019.

Andrew Walters
Chief Executive Officer

Parent Company Statement of Changes in Equity

	Share capital £'000	Share premium account £,000	Capital redemption reserve £'000	Equity reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 31 December 2016	474	4,702	4,663	135	12,202	**22,176**
Shares issued	2	167	-	-	-	**169**
Increase in equity reserve in relation to options issued	-	-	-	420	-	**420**
Adjustment for exercised options	-	-	-	(104)	104	**-**
Dividend paid	-	-	-	-	(5,421)	**(5,421)**
Transactions with owners	**2**	**167**	**-**	**316**	**(5,317)**	**(4,832)**
Profit for the year and total comprehensive income	-	-	-	-	6,238	**6,238**
Balance at 31 December 2017	476	4,869	4,663	451	13,123	**23,582**
Shares issued	2	327	-	-	-	**329**
Increase in equity reserve in relation to options issued	-	-	-	108	-	**108**
Adjustment for exercised options	-	-	-	(133)	133	**-**
Dividend paid	-	-	-	-	(6,442)	**(6,442)**
Transactions with owners	**2**	**327**	**-**	**(25)**	**(6,309)**	**(6,005)**
Profit for the year and total comprehensive income	-	-	-	-	(110)	**(110)**
Balance at 31 December 2018	478	5,196	4,663	426	6,704	**17,467**

Notes to the Parent Company Financial Statements

1 Summary of significant accounting policies

Accounting convention

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The financial statements are prepared under the historical cost convention.

No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006.

The financial statements are prepared in Sterling and are rounded to the nearest thousand pounds (£000).

Basis of preparation

The Company transitioned to FRS 101 in 2016. The accounting policies which follow were those applied in preparing the financial statements for the year ended 31 December 2018 and the year ended 31 December 2017. The Company has taken advantage of the following disclosure exemptions under FRS 101:

a) Share-based Payment disclosure, as Quartix Holdings plc is the ultimate parent, the share-based payment arrangement concerns its own equity instruments and its separate financial statements are presented alongside the consolidated financial statements of the Group.
b) Financial Instruments disclosures, given that equivalent disclosures are included in the consolidated financial statements of the Group in which the entity is consolidated.
c) Fair Value Measurement disclosures.
d) Certain disclosures required by IAS 1 Presentation of Financial Statements, including certain comparative information in respect of share capital movements.
e) Statement of Cash Flows and related notes.
f) Related Party Disclosures relating to key management personnel compensation.
g) Disclosure of related party transactions entered into between two or more members of a group, given that any subsidiary which is a party to the transaction is wholly owned by such a member.
h) Capital management disclosures.
i) The requirement to produce a balance sheet at the beginning of the earliest comparative period.

The Company is not impacted by IFRS 15: Revenue from Contracts with Customers since it does not have any contracts with customers. The impact of the implementation of IFRS 9: Financial Instruments was not significant as its financial assets and liabilities relate only to intergroup loans.

Going concern

As a holding company, its main source of income is dividends receivable from its trading subsidiaries and in particular Quartix Limited. After assessing the forecasts and liquidity of the Group for the next two calendar years and the longer term strategic plans, the Directors have a reasonable expectation that the Company will continue to receive dividends for the foreseeable further. The Company therefore continues to adopt the going concern basis in preparing its individual entity accounts.

Investment in subsidiaries

The Company's interests in investments presently comprise only interest in wholly owned subsidiary undertakings. Investments are recognised initially at cost. Subsequent to initial recognition the financial statements include the adjustments in respect of Share Based Payments or provision for impairment.

1 Summary of significant accounting policies (continued)

Impairment of assets
The Company assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset, being the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use. To determine the value-in-use, management estimates expected future cash flows and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

A reversal of an impairment loss for an asset shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount. Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase.

Taxation
Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the Statement of Financial Position date.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets and are recognised to the extent that it is regarded as more likely than not that they will be recovered from future trading profits.

Deferred tax liabilities are provided in full, with no discounting. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the Statement of Financial Position date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in profit or loss, other comprehensive income or equity as appropriate.

Dividends
Dividends attributable to the equity holders of the Company approved for payment during the year are recognised directly in equity.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial assets
As highlighted in note 1, Significant accounting policies under Financial Assets in the Consolidated Financial Statements, the Group has adopted IFRS 9 and applied it as at 1 January 2018. It has not, as permitted by IFRS 9, restated prior periods and has not made a prior year adjustment in respect of the carrying value of financial assets at 1 January 2018 since the impact was not significant.

As required by IFRS 9, the Company will apply the impairment requirements and recognise a loss allowance for expected credit losses on its financial assets. At each reporting date, it will measure the loss allowance at an amount equal if the credit risk on financial instruments has increased significantly since initial recognition.

1 Summary of significant accounting policies (continued)

Financial assets (continued)
The Company will recognise in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with IFRS 9.

Financial liabilities
Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities are recorded initially at fair value and subsequently at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the profit and loss.

A financial liability is derecognised only when the obligation is extinguished. The Company does not enter into derivative contracts for hedging or speculative purposes.

Foreign currencies
Transactions in foreign currencies are translated into Sterling at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the Statement of Financial Position date.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in profit or loss in the period in which they arise.

Employee benefits: Share-based payments
The Company operates a number of employee share schemes under which it makes equity-settled share based payments to employees of its UK trading subsidiary. The fair value of the employee services received in exchange for the grant of the options is recognised as an increase in the investment in the subsidiary, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards.

The fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is assessed at the grant date, using the Black-Scholes method, and excludes the impact of non-market vesting conditions.

The expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of the share options the proceeds received are allocated to share capital and share premium.

1 Summary of significant accounting policies (continued)

Share capital and reserves

Share capital and reserves comprises the following:

- "Called up share capital" represents the nominal value of equity shares
- "Share premium account" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue
- “Capital redemption reserve” represents the amount by which the Company's issued share capital is diminished when shares are redeemed or purchased wholly out of the Company's profits
- “Equity reserve” is used to reflect the expenses associated with granting share options to employees and the issue of warrants
- "Retained earnings" represents retained profits

2 Profit and loss account

No Statement of profit and loss is presented for Quartix Holdings plc as provided by section 408 of the Companies Act 2006. The Company’s profit for the financial year was £0.10m (2017: £6.24m).

Auditors' remuneration attributable to the Company is as follows:

	2018	2017
	£’000	£’000
Audit fees – statutory audit	**22**	21
Other services	**1**	1
	23	22

Details of Directors’ emoluments are set out on page 27.

3 Directors and employees

Staff costs, including directors, comprised the following:

	2018	2017
	£’000	£’000
Wages and salaries	**90**	88
Social security costs	**10**	10
	100	98

The average number of employees for the company, being the non-executive directors only, during the year was 2 (2017: 2).

4 Investments – non current

The amounts recognised in the Company's Statement of Financial Position relate to the following:

	Subsidiary undertakings £'000
Cost:	
At 1 January 2017	**18,735**
Increase due to granting of share options to subsidiary employees:	
New investments	**420**
At 1 January 2018	**19,155**
Increase due to granting of share options to subsidiary employees:	
New investments	**108**
Net book amount at 31 December 2018	**19,263**

There is no provision for impairment for the investment in subsidiaries.

Subsidiary	Country of registration	Class of share capital held	Proportion held by the Company	Nature of business
Quartix Limited	England & Wales	Ordinary shares	100%	Vehicle Tracking
Quartix Inc	USA	Common shares	100%	Vehicle Tracking

5 Debtors

	2018 £'000	2017 £'000
Social security and other taxes	**6**	4
Prepayments	**6**	6
Amounts owed by subsidiary undertakings	**1,438**	3,975
	1,450	3,985

All receivables fall due within one year of the Statement of Financial Position date.

The amount owed by subsidiary undertakings includes a US dollar loan to Quartix Inc of £1.4m (2017: £1.2m) which is repayable on or before 31 December 2019 but can be extended by mutual agreement. Interest is charged quarterly at 1% per quarter on the quarter end balance. The remainder of amounts owed by subsidiary undertakings at 31 December 2017, relates to a current account to Quartix Limited.

6 Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Social security and other taxes	**4**	4
Accruals and deferred income	**38**	34
Amounts owed to subsidiary undertakings	**3,395**	-
	3,437	38

The amount owed to subsidiary undertakings relates to the current account with Quartix Limited. It is a current account that will be cleared by dividends payable in 2019.

7 **Called up share capital**

	2018 £'000	2017 £'000
Allotted, called up and fully paid		
47,846,560 (2017: 47,568,354) ordinary shares of £0.01 each	**478**	476

Details of movements in share options and those outstanding at 31 December 2018 are disclosed in note 20 of the Group accounts.

8 **Related party transactions and ultimate controlling party**

The Company has taken advantage of the exemption not to disclose transactions with wholly owned subsidiaries. Details of Directors' remuneration and interests in shares are disclosed in the Directors' Remuneration Report (see page 27) and key management remuneration in note 7 of the Group accounts.

9 **Contingent liabilities**

There are no material contingent liabilities subsisting at 31 December 2018 or 31 December 2017.

10 **Financial commitments**

The Company had no financial commitments at 31 December 2018 or 31 December 2017.

11 **Risk management objectives and policies**

Financial Instruments

The Company uses various financial instruments; these include cash deposits and bank loans and various items such as group receivables and group payables that arise directly from its operations. The main purpose of these financial instruments is to manage working capital.

The main risks arising from the Company's financial instruments are credit risk and currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

The Company's exposure to credit risk is limited to the carrying amount of financial assets recognised at the Statement of Financial Position date, as summarised below:

	2018 £'000	2017 £'000
Loans and receivables		
Cash and cash equivalents	**165**	426
Amounts owed by subsidiary undertakings	**1,438**	3,975
	1,603	4,401

Credit risk

Risks associated with cash deposits are limited as the banks used have high credit ratings assigned by international credit rating agencies. The amount owed by subsidiary undertakings includes a US dollar loan to Quartix Inc of £1.4m (2017: £1.2m) which is repayable on or before 31 December 2019 but can be extended by mutual agreement. Interest is charged quarterly at 1% per quarter on the quarter end balance. The remainder of amounts owed by subsidiary undertakings at 31 December 2017 relates to a current account to Quartix Limited. (see below and note 5).

11 Risk management objectives and policies (continued)

Currency risk

The Company is exposed to transaction foreign exchange risk. The Group mitigates its risk to the US Dollar by trading in the USA; however the Company is exposed to exchange movements on its US Dollar loan to Quartix Inc to fund its start-up losses and working capital requirements.

The Company's financial assets denominated in currencies (all US dollars) were:

	2018	2017
	£'000	£'000
Loan and receivables		
Cash at bank	40	38
Amounts owed by subsidiary undertakings	1,438	1,233
	1,478	1,271

The Company's net profit would not be materially impacted by 5% strengthening of Pound Sterling to the US dollar or Euro.

Notice of Annual General Meeting

Notice is hereby given that the fifth Annual General Meeting (the "Meeting") of Quartix Holdings plc will be held at **9 Dukes Court, 44~62 Newmarket Rd, Cambridge CB5 8DZ** on **Tuesday 26 March 2019** at **11.00 am** for the following purposes:

To consider, and if deemed fit, to pass the following as ordinary resolutions:

1. To receive and adopt the audited annual accounts for the year ended 31 December 2018.
2. To approve and declare a final dividend for the year ended 31 December 2018 of 3.8p per ordinary share and supplementary dividend of 6.2p per ordinary share, a total final dividend of 10.0p per share. This will be paid on 3 May 2019 to shareholders on the register as at the close of business on 5 April 2019.
3. To re-elect Andrew Walters as a Director who, in accordance with the Company's Articles of Association, retires as a Director and is eligible for re-election.
4. To re-elect Daniel Mendis as a Director who, in accordance with the Company's Articles of Association, retires as a Director and is eligible for re-election.
5. To re-elect Paul Boughton as a Director who, in accordance with the Company's Articles of Association, retires as a Director and is eligible for re-election.
6. To re-elect Jim Warwick as a Director who, in accordance with the Company's Articles of Association, retires as a Director and is eligible for re-election.
7. To re-appoint Grant Thornton UK LLP as the auditors of the Company until the end of the next Annual General Meeting.
8. To authorise the Directors to determine the remuneration of the auditors.
9. To give the Directors general and unconditional authorisation for the purposes of section 551 of the Companies Act 2006 (the "Act") to exercise all powers of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company up to a maximum nominal value of £159,489 (representing approximately 33% of the issued share capital of the Company as at 22 February 2019) to such persons at such times and on such terms they deem proper provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company or 30 June 2020, whichever is earlier, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities (as defined in section 560 of the Act) to be allotted after such expiry and the Directors may allot such securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired; and all prior authorities to allot securities (to the extent unutilised) be revoked, but without prejudice to the allotment of any shares or securities already made or to be made pursuant to such prior authorisation.

To consider, and if deemed fit, to pass the following as special resolutions:

10. That the Directors be and are empowered, pursuant to section 570 of the Companies Act 2006 (the "Act"), to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority conferred upon them by resolution 9 above and to allot equity securities (as defined in section 560(3) of the Act (*sale of treasury shares*)) for cash in each case as if section 561 of the Act did not apply to any such allotment provided, however, that the power conferred by this resolution shall be limited to:

    a. The allotment of equity securities in connection with a rights issue, open offer or any other offer of, or invitation to apply for, equity securities in favour of holders of ordinary shares in the Company on the register of members at such record dates as the Directors may determine and other persons entitled to participate therein where the equity securities respectively attributable to the interests of the ordinary shareholders are proportionate (as nearly as may be) to the respective number of ordinary shares in the Company held or deemed to be held by them on any such record dates, subject to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements, treasury shares, record dates, or legal or practical problems arising or resulting from the application of the laws of any overseas territory or the requirements of any other recognised regulatory body or stock exchange in any territory or by virtue of shares being represented by depository receipts or any other matter whatever; and

b. The allotment, other than pursuant to sub-paragraph 'a' above, to any person or persons of equity securities up to an aggregate nominal value not exceeding £23,923, representing approximately 5% of the ordinary share capital in issue as at 22 February 2019.

This power shall expire at the conclusion of the next Annual General Meeting of the Company or 30 June 2020, whichever is the earlier, unless previously varied, revoked or renewed by the Company in general meeting provided that the Company may, before such expiry, make any offer or agreement which would or might require securities to be allotted, or treasury shares sold, after such expiry and the Directors may allot securities or sell treasury shares pursuant to any such offer or agreement as if the power conferred had not expired; and all prior powers granted under section 570 of the Act shall be revoked provided that such revocation shall not have retrospective effect.

11. That the Directors be generally and unconditionally authorised, for the purposes of section 701 of the Companies Act 2006 (the "Act"), to make market purchases, as defined in section 693(4) of the Act, of ordinary shares of £0.01 each in the Company on such terms and in such manner as the Directors shall determine, provided that:

a. The maximum aggregate number of ordinary shares which may be purchased is 2,392,000 (representing approximately 5% of the ordinary share capital in issue as at 22 February 2019);
b. The minimum price that may be paid for an ordinary share is its nominal value (£0.01);
c. The maximum price, exclusive of any expenses, which may be paid for an ordinary share shall be the higher of:
    i. an amount equal to 105% of the average middle market quotations for the ordinary shares of the Company as derived from the AIM appendix to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased; and
    ii. an amount equal to the higher of the price quoted for the last independent trade of an ordinary share and the highest current independent bid for an ordinary share on the trading venue where the purchase is carried out.
d. This authority shall expire, unless previously renewed, revoked or varied, on the date of the next Annual General Meeting or 30 June 2020, whichever is earlier, save that the Company may enter into a contract for the purchase of ordinary shares under this authority which would or might be completed, wholly or partly, after this authority expires.

By order of the Board on 22 February 2019.

Daniel Mendis
Company Secretary

Notes to the Notice of Annual General Meeting

The following notes explain your general rights as a shareholder and your right to attend and vote at this Meeting or to appoint someone else to vote on your behalf.

1 To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), shareholders must be registered in the Register of Members of the Company at close of trading on 22 March 2019. Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the Meeting.

2 Shareholders, or their proxies, intending to attend the Meeting in person are requested, if possible, to arrive at the Meeting venue at least 20 minutes prior to the commencement of the Meeting at 11.00 am (UK time) on 26 March 2019 so that their shareholding may be checked against the Company's Register of Members and attendances recorded.

3 Shareholders are entitled to appoint another person as a proxy to exercise all or part of their rights to attend and to speak and vote on their behalf at the Meeting. A shareholder may appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attached to a different ordinary share or ordinary shares held by that shareholder. A proxy need not be a shareholder of the Company.

4 In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's Register of Members in respect of the joint holding (the first named being the most senior).

5 A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting..

6 In order for a proxy appointment to be valid, a form of proxy must be completed. You can appoint a proxy and indicate how you would like your proxy to vote at the Meeting or any adjournment by using any of the following methods:

- by logging on to www.signalshares.com and following the instructions, ensuring that your submission is completed before 11.00 am on 22 March 2019;
- •by completing and returning a hard copy proxy form to Link Asset Services at 34 Beckenham Road, Beckenham, Kent, BR3 4ZF to be received by 11.00 am on 22 March 2019; or
- •in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below, transmitting the instructions so as to be received by 11.00 am on 22 March 2019.

You may request a hard copy form of proxy directly from the registrars, Link Asset Services (previously called Capita), on Tel: 0371 664 0300. Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales.

7 If you return more than one proxy appointment, either by paper or electronic communication, the appointment received last by the Registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.

8 The return of a completed form of proxy, electronic filing or any CREST Proxy Instruction (as described in note 10 below) will not prevent a shareholder from attending the Meeting and voting in person if he/she wishes to do so.

9 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting (and any adjournment of the Meeting) by using the procedures described in the CREST Manual (available from www.euroclear.com/site/public/EUI). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

10 In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID RA10) by 11.00 am on 22 March 2019. For this purpose, the time of receipt will be taken to mean the time (as determined by the timestamp applied to the message by the CREST application host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

11 CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

12 Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that no more than one corporate representative exercises powers in relation to the same shares.

13 As at 22 February 2019 (being the latest practicable business day prior to the publication of this Notice), the Company's ordinary issued share capital consists of 47,846,560 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 22 February 2019 are 47,846,560.

14 Any shareholder attending the Meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the Meeting but no such answer need be given if: (a) to do so would interfere unduly with the preparation for the Meeting or involve the disclosure of confidential information; (b) the answer has already been given on a website in the form of an answer to a question; or (c) it is undesirable in the interests of the Company or the good order of the Meeting that the question be answered.

15 The following documents are available for inspection during normal business hours at the registered office of the Company on any business day from the date of this Notice until the time of the Meeting and may also be inspected at the Meeting venue, as specified in this Notice, from 10.45 am on the day of the Meeting until the conclusion of the Meeting:

- copies of the Directors' letters of appointment or service contracts.

16 You may not use any electronic address (within the meaning of Section 333(4) of the Companies Act 2006) which is provided in either this Notice or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.

A copy of this Notice, and other information required by Section 311A of the Companies Act 2006, can be found on the Company's website at www.quartix.net

Any general queries by members about the Annual General Meeting should be addressed to the Company Secretary by letter or email at Quartix Holdings plc, 9 Dukes Court, 44~62 Newmarket Rd, Cambridge CB5 8DZ or dan.mendis@quartix.net

Quartix

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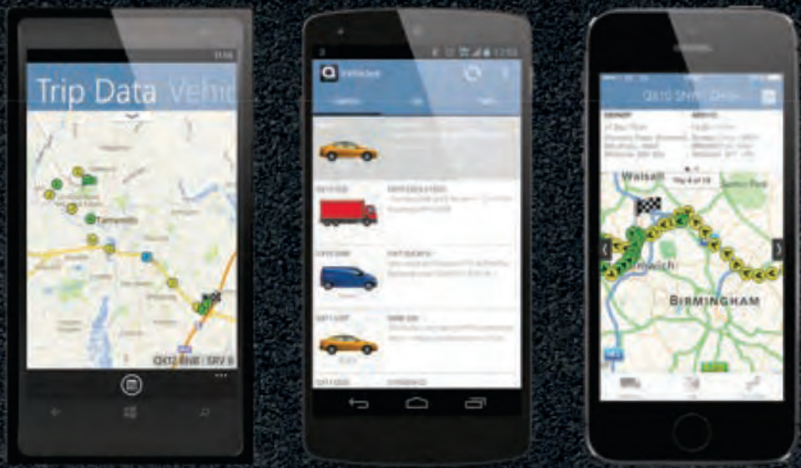

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